

alan seward

financial solutions

# Property-focused investment companies

Regaining favour with investors as demand for income continues

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The state of the economy and the government's future plans

**WILL YOU ENJOY A WORRY-FREE RETIREMENT?**  
Don't let the effects of inflation seriously damage your wealth in old age

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Year-end tax planning tips

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Don't miss out on using your tax-efficient allowance

Would you need to get back to work quickly if you were off sick?

Over half of UK workers are unable to survive financially for more than three months

# Welcome to eSmart Money

Welcome to eSmart Money magazine and a very Happy New Year from us all.

They say that the greatest challenges bring the greatest rewards, and keeping afloat during these times of austerity are challenging to say the least. However, there are opportunities for growth available and careful management of your money is still the best way to ensure you ride out the current economic storm.

With this in mind our leading article this month is all about getting your finances in shape for 2012; this includes year-end tax planning tips and how to use your ISA allowance to maximum effect.

Also, in this issue we take a long, hard look at the state of the UK economy and assess the government's plans for tackling the issues we face in the future.

Whatever the prevailing economic climate, we always put people before products to ensure that you get the right advice for your situation. To arrange a free review of your finances, please don't hesitate to contact me or a member of the team on 01225 44 88 32 or email [alan@alanseward.co.uk](mailto:alan@alanseward.co.uk)

With my best wishes for a prosperous 2012.



Alan Seward



## Get in touch

We would love to hear from you... For general advice or to make a comment about the magazine please contact us.

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## Editorial

**W**ith further tax increases likely on the horizon, there really is no time like the present to take a step back and look at how you could reduce your taxes and improve your financial planning strategy before the end of the current 2011/12 tax year on 5 April. On page 06 of this latest issue of our personal finance magazine we have provided an overview of the key areas you may wish to consider to get your finances fit for 2012 and achieve a more secure future for you and your family.

An Individual Savings Account (ISA) is a tax-efficient wrapper. Within an ISA you pay no capital gains tax and no further tax on the income, making it one of the most tax-efficient savings vehicles available. If you are planning to open or transfer an existing ISA, you have until 5 April, but don't leave it until this date. If you miss the deadline, you'll lose your £10,680 allowance for the 2011/12 tax year forever. Read the full article on page 28.

Inheritance Tax (IHT) in the UK may be one of life's unpleasant facts but IHT planning and professional advice could help you pay less tax on your estate. With the current thresholds set to remain at £325,000 for individuals and £650,000 for married couples and registered civil partnerships until 2014, on page 08 we consider the importance of reviewing your potential liability and finding out what you could do to reduce or even eliminate this burden. ■

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## The hunt for income continues apace

33 per cent of investment companies yielding more than FTSE 100 average yield

While the hunt for income continues apace, recent figures released by the Association of Investment Companies (AIC) demonstrate that 33 per cent of conventional investment companies are yielding more than the FTSE 100 average annual yield of 3.2 per cent. Of these, 66 per cent are trading at a discount to net asset value.

Annabel Brodie-Smith, Communications Director of AIC, said: 'The investment company sector has long recognised the importance of dividends and it's encouraging to see such a significant proportion of the sector yielding more than the FTSE 100 annual average.'

'Investment trusts have the ability to sustain their dividends by building up their revenue reserve in good years, which allows them to pay dividends in difficult years. They do this by retaining up to 15 per cent of the income they receive each year and transferring this to their revenue reserve. Known as 'smoothing' dividends, this is one of the defining characteristics of the sector.'

'Income-seeking investors should not get carried away by yield alone. Investors need to consider their risk profile when making an investment decision and if

investors are in any doubt they should consult their financial adviser.'

### HIGHEST YIELDING SECTORS

The Property Direct UK sector has the highest average dividend yield of 7 per cent and is on an average discount of -4.2 per cent, followed by UK High Income (6.6 per cent average yield, -0.6 per cent average discount), Global High Income (5.4 per cent average yield, -2 per cent average discount), Sector Specialist: Infrastructure (5.3 per cent average yield, 1 per cent average premium), UK Growth & Income (4.5 per cent average yield, 0.3 per cent average premium), Global Growth & Income (4.5 per cent average yield, 0.8 per cent average premium) and hedge funds (4.2 per cent average yield, -7.4 average discount). ■

*Dividend and discount data to 31 October 2011. Source: AIC using Morningstar. AIC Members only. Excludes VCTs and split capital investment companies, leaving 246 companies. FTSE 100 average annual yield over last 12 months to 31 October 2011. Source: Datastream.*

*The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

# Get your finances fit for 2012

## Year-end tax planning tips

With further tax increases likely on the horizon, there really is no time like the present to take a step back and look at how you could reduce your taxes and improve your financial planning strategy.

The end of the current 2011/12 tax year is 5 April. We have provided an overview of the key areas you may wish to consider that could help you achieve a more secure future for you and your family.

### MAKE USE OF PERSONAL ALLOWANCES

Every person in the UK is allowed to earn a certain amount of money each year without paying income tax, known as a personal allowance. This tax year, the personal allowance is £7,475, with higher allowances available to those aged 65-74 (£9,940) and age 75 and over (£10,090). If you become 65 or 75 during the year to 5 April 2012, you are entitled to the full allowance for that age group. If you earn income above £100,000 you start to lose the personal allowance (at a rate of £1 for each £2 you earn above this limit).

If you are married and one partner is not working, if appropriate, it could be beneficial to transfer savings accounts to them, so that you pay less income tax as a couple. If you don't make use of your personal allowance in any tax year, you cannot carry it forward to the next year.

### USE YOUR INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

ISAs allow you to save tax-efficient money. Within an ISA you pay no capital gains tax and no further tax on the income. You don't even need to declare ISAs on your tax return. This tax year, you can invest up to £10,680 in a Stocks and Shares ISA or, alternatively, you can invest up to £5,340 in a Cash ISA and the balance in a Stocks and Shares ISA. Any allowance not used by the 5 April deadline will be lost forever. The value of tax savings depends on your circumstances and tax rules can change over time.

**£10,680**

The maximum amount you can invest in an Individual Savings Account this tax year

**£10,600**

An individual's current annual capital gains tax-free allowance (2011/12)

### TOP UP YOUR PENSION CONTRIBUTIONS

The annual allowance for the tax year 2011/12 is £50,000, inclusive of your own contribution and any other amounts paid into an approved pension scheme. Contributions paid by you to a personal pension plan or a stakeholder pension scheme are made net of 20 per cent basic rate tax. This means that for every £100 you want to save, you pay only £80. Tax relief of £20, topping your contribution up to £100, is then added by HM Revenue & Customs (HMRC).

If you are a 40 per cent higher rate tax payer, you may be able to claim additional tax relief. If you are a 50 per cent additional rate tax payer, you may also be able to claim additional tax relief at your highest rate. Depending on how much you earn over the higher rate tax band, and your level of contribution, any additional rate tax relief would range between a further 1 per cent up to a maximum of 30 per cent.

### PLAN FOR INHERITANCE TAX (IHT)

Effective IHT planning could save your family hundreds of thousands of pounds. If you haven't done anything about a potential IHT bill, now is the time to take action. Currently, IHT is charged at 40 per cent on anything you leave over £325,000 when you die (£650,000 for married couples or registered civil partnerships). With rising property prices in recent years, this has resulted in more people being subject to IHT.

Start by writing a will, making it clear to whom you want to leave your money and possessions when you die. You may then want to try and minimise any potential IHT bill by giving regular small gifts away. Currently, you can give away a lump sum of up to £3,000 in each tax year without

paying IHT – known as your 'annual exemption' – or £6,000 this year if you haven't used last year's allowance.

You also have a 'small gifts exemption', which means that you can make small gifts of £250 each year free of IHT. There is no restriction on the number of small gifts but they must each be to separate individuals. You cannot use your annual exemption and your small gifts exemption together to give someone £3,250.

### REDUCE YOUR CAPITAL GAINS TAX (CGT) LIABILITY

If you have made a taxable gain from the sale of property, shares, investments, businesses or any form of capital gain, make sure you don't make unnecessary CGT payments. CGT is a tax charge that arises from the disposal of assets, such as shares or buy-to-let properties, charged at

18 per cent for lower and 28 per cent for higher rate tax payers. Every individual has an annual CGT-free allowance, which currently stands at £10,600 for the 2011/12 tax year.

The limit applies to each individual, so if you are married or in a registered civil partnership you each have an annual exemption and should ensure that each of you maximises your CGT-free gains.

There are different ways to reduce CGT bills, for example, equalisation or joint ownership of investments will transfer income to the lower-taxed one. This can be done CGT-free for married couples and registered civil partnerships. By transferring an asset into joint names, you could both make use of your tax-free allowance so that up to £21,200 of any gain can be tax-free in the current tax year. But the transfer to your spouse or partner must be a genuine outright gift, so this might not be a suitable strategy for everyone.

It may also be appropriate for some unmarried couples to equalise non-CGT assets such as bank accounts, which could mean that it becomes possible to equalise or transfer assets on whichever gains are less than their annual CGT exemption. Even if an asset is only put into joint ownership the day before it produces income – for example, through interest or a dividend – that income will still be split equally between both owners.

If you immediately sell employee shares that you get through a Save-As-You-Earn share option scheme, company share option scheme or enterprise management incentive scheme, you may have a CGT bill. Consider selling in several tranches, so that each year's gain is within your annual tax-free allowance. ■

## Working for financial need rather than enjoyment

More people will have to work later in life to maintain an adequate standard of living.

Some 6.1m of today's over-50s expect to work past the current state retirement age, according to data from LV=s Working Late Index. The report reveals that, on average, those planning to work past state retirement age will work for an extra six years, which could see them retiring at age 71 for men and 66 for women based on today's retirement age.

### AFFORDABILITY, THE KEY REASON

One in five over-50s said they expect to work for at least a decade past the current state retirement age. Affordability is the key reason stated by 51 per cent of over-50s who plan to work beyond the state retirement age, while a further 11 per cent want to delay taking out their pension in the hope its value would increase over time.

### CONTINUING TO WORK FOR FINANCIAL NEED

The data from last year's Working Late Index showed that 43 per cent of those planning to work beyond state retirement age said they would do so because they enjoyed the job they do. In 2011 this had fallen to 37 per cent, which LV= claimed represented a shift to continuing to work for financial need rather than enjoyment.

Moreover, these trends are likely to continue as the state retirement age increases to age 65 for women in 2018 and to age 66 for both men and women in 2020.

### TAKING PROFESSIONAL ADVICE

Ray Chinn, Head of Pensions at LV=, said: 'The trend of people retiring well into their 60s, or even their 70s, has been increasing slowly over the last few years.

'The rising cost of living, low interest rates on savings and

the fact that as a nation we are living longer has had a significant impact on our retirement aspirations and the amount of money we need to live a comfortable retirement.

'Our findings have shown a shift to continuing to work for financial need rather than enjoyment and we're likely to see this increase further.'

### WORKING LATER IN LIFE

Ray Chinn continued: 'In recent years we have seen many people cutting back on the amount they are saving towards retirement. As a result many will have no choice but to work later in life to maintain an adequate standard of living in old age.

'We urge those nearing retirement not to give up on saving at such a crucial time and to consider all the options available to them.'

**WHATEVER YOUR STAGE OF LIFE, IT IS IMPORTANT THAT YOUR RETIREMENT PLANNING IS ON TRACK TO ENSURE YOU MEET YOUR NEEDS, NOW AND IN THE FUTURE. TO FIND OUT MORE ABOUT HOW WE CAN HELP YOU PLAN TO ENJOY YOUR RETIREMENT YEARS, PLEASE CONTACT US FOR MORE INFORMATION.**

*All statistics are from LV=s data taken from a survey of 1,522 British adults, all aged over 50. 25 November 2011.*

THERE ARE VARIOUS ALLOWANCES AND RELIEFS AVAILABLE THAT CAN HELP MINIMISE TAX LIABILITIES ARISING ON EARNINGS, PROFITS OF TRADE OR GAINS WHEN YOU SELL CHARGEABLE ASSETS, BUT UNDERSTANDING WHAT THEY ARE AND WHICH ONES YOU ARE ENTITLED TO CAN BE A DAUNTING TASK. WHATEVER YOUR TAX PLANNING NEEDS, WE WILL ENDEAVOUR TO FIND A TAX SAVING SCHEME TO SUIT YOUR CIRCUMSTANCES. PLEASE CONTACT US TO DISCUSS YOUR SPECIFIC SITUATION AND REQUIREMENTS.

# Identifying the most appropriate solution for you

What should you do to reduce, or even eliminate, an Inheritance Tax burden?

Inheritance Tax (IHT) in the UK may be one of life's unpleasant facts but IHT planning and professional advice could help you pay less tax on your estate. With the current thresholds set to remain at £325,000 for individuals and £650,000 for married couples and registered civil partnerships until 2014, now is the time to consider reviewing your potential liability and finding out what you could do to reduce, or even eliminate, this burden.

## EVERYTHING YOU HAVE OF VALUE

IHT is usually payable on everything you have of value when you die, including: your home, jewellery, savings and investments, works of art, cars and any other properties or land, even if they are overseas.

When you die, your assets become known as your estate. Any part of your estate that is left to your spouse or registered civil partner will be exempt from IHT. The exception is if your spouse or registered civil partner is domiciled outside the UK. Then the maximum you can give them before IHT may need to be paid is £55,000. Unmarried partners, no matter how long-standing, have no automatic rights under the IHT rules.

IHT is usually payable on death but there are certain circumstances, if you put assets into certain types of trusts, for example, when IHT becomes payable earlier.

## TAPER RELIEF

Taper relief applies where tax, or additional tax, becomes payable on your death in respect of gifts made during your lifetime. The relief works on a sliding scale up to seven years and is calculated on the number of years before your death in which a transfer is made. The relief is given against the amount of tax you'd have to pay rather than the value of the gift itself. The value of the gift is set when it's given, not at the time of death.

## WRITING A WILL

One of the most important things you can do to help reduce the amount of IHT you may have to pay is write a will. If you die without a will, your estate is 'divided-up' according to a pre-set formula and you have no say over who gets what or how much tax is payable.

## GIFTING IT AWAY

The taxman allows you to make a number of small gifts each year without creating an IHT liability. Remember, each person has their own allowance, so the amount can be doubled if each spouse or partner uses their allowance.

You can also make larger gifts but these are known as Potentially Exempt Transfers (PETs) and you could have to pay IHT on their value if you die within seven years of making them. Any other gifts made during your lifetime that do not qualify as a PET will immediately be chargeable to IHT. These are called Chargeable Lifetime Transfers (CLT) and an example is a gift into a Discretionary trust.

## The taxman lets you give the following as exempt transfers:

- Up to £3,000 each year as either one or a number of gifts. If you don't use it all up one year you can carry the remainder over to the next tax year. A tax year runs from the 6 April one year to 5 April in the next year.

- Gifts of up to £250 to any number of other people – but not those who received all or part of the £3,000.
- Any amount from income that is given on a regular basis provided it doesn't reduce your standard of living. These are known as gifts made as 'normal expenditure out of income'.
- If your child is getting married you can gift them £5,000, if a grandchild or more distant relative is getting married £2,500, and a friend or anyone else you know £1,000.

**BY TAKING STEPS NOW AND GETTING SOUND PROFESSIONAL FINANCIAL ADVICE, YOU COULD REDUCE OR EVEN ELIMINATE THIS POTENTIAL FUTURE BURDEN FOR YOUR LOVED ONES AT WHAT WOULD ALREADY BE A DIFFICULT TIME – WHILE IN SOME CASES RETAINING FULL CONTROL OF YOUR ESTATE. TO FIND OUT MORE, PLEASE CONTACT US TO SEE HOW WE COULD HELP YOU IDENTIFY THE MOST APPROPRIATE SOLUTION FOR YOU.**

*The tax treatment of any investments depends on your individual circumstances and may be subject to change in the future. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

# Unbudgeted financial shocks

Why people planning for retirement need to focus on their living standards

Nearly one in four pensioners have had to bail out their children\* at a major cost to their own standard of living, research from MetLife shows.

23%

The percentage of pensioners that say they have helped out their adult children

51%

The percentage of pensioners that say they have had to run down savings and investments in the past two years to supplement retirement income

## FINANCIAL SUPPORT

Providing financial support for children ranked almost equally with poorly performing investments as the biggest unbudgeted financial shock for retired people, the nationwide study shows. Around 23 per cent of pensioners said they had helped out adult children.

The research showed nearly six out of 10 pensioners have been confronted with unexpected financial shocks in the past two years which blew their retirement plans off course, with major home repairs and buying a new car each being reported by 16 per cent of those surveyed.

## LIVING STANDARDS

MetLife is urging people planning for retirement to focus on the risk of financial shocks hitting their living standards – and to consider solutions which allow them to keep control of their retirement income, such as fixed-term annuities.

Its research shows 51 per cent of pensioners say they've had to run down savings and investments in the past two years to supplement retirement income, with 36 per cent eating into savings and 12 per cent using up both savings and investments.

## UNBUDGETED BILLS

Dominic Grinstead, Managing Director UK at MetLife Europe Limited said: "If you are on a fixed income the effect of an unbudgeted financial shock such as bailing out adult children is magnified.

"It is clear that retired people have to expect the unexpected as nearly six out of ten have had to cope with unbudgeted bills and other issues which need to be dealt with.

"Pensioners literally have to live with the decisions they make on retirement income, so they may benefit from more flexible retirement income solutions which enable them to stay in control over their retirement."

Around one in twenty retired people have even had family members coming to live with them because of financial hardship. Meanwhile, 2 per cent of retired people have had to find money to pay for major medical treatment. ■

**WITH SO MANY DIFFERENT TYPES OF PENSION AVAILABLE IT'S HARD TO KNOW WHERE TO START. WE CAN HELP YOU FIND ONE THAT'S RIGHT FOR YOU. PLEASE CONTACT US TO DISCUSS YOUR OPTIONS.**

*\* Research conducted by Vision Critical using an online methodology among 977 retired adults between October 24th and 27th 2011.*



# Property-focused investment companies

Regaining favour with investors as demand for income continues

The property market has experienced some significant highs and lows since 2008 but is now steadily regaining favour among investors as property-focused investment companies are proving a source of much sought-after income. The Association of Investment Companies (AIC) has surveyed property managers for their views on the outlook for the sector.

**7.3%**

Average annual income yield from property-focused investment companies

WE ARE ABLE TO OFFER YOU ACCESS TO A BROAD RANGE OF INCOME-PRODUCING PRODUCTS. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US FOR MORE INFORMATION.

## POSITIVE RETURNS

The increasing attraction of property for investors can be seen in the discount movement from 32 per cent at the end of September 2008 to 6.5 per cent at the end of September 2011 for the Property - Direct UK sector. Income is a strong pull for this sector, according to the Investment Property Databank (IPD), with yields averaging 7.3 per cent, but returns have been positive too, up 23 per cent over the last three years to the end of September 2011 compared to the average investment company increase of 18 per cent.

Jason Baggaley, Manager, Standard Life Investments Property Income, commented: 'Despite heightened volatility and unprecedented uncertainty resulting from the ongoing Eurozone problems, UK Commercial Real Estate continues to be one of the few asset classes to provide reasonable positive returns over the year to date.'

## ATTRIBUTABLE TO INCOME

Richard Kirby, Manager, F&C Commercial Property Trust, noted: 'The property market has proved remarkably resilient in the face of slow domestic economic growth, fiscal austerity, a stalling of economic recovery overseas and the Eurozone crisis. There have been two years of sustained growth following a severe downturn. The initial sharp bounce-back has been replaced by a year when performance has been largely driven by income. In September 2011, the annual total return was 8.7 per cent, of which 6.9 per cent was attributable to income, according to the IPD Monthly Index.'

## A MORE AFFLUENT POPULATION

In the UK property market, London continues to outperform other regions although this difference could become less marked. Richard Kirby maintained: 'London has out-performed the regions, helped by a stronger local economy, a more affluent population, tight new supply, its role as an international as well as a national centre and its relative resilience to public sector cutbacks.'

'Overseas investors have been attracted to this market, with London seen as a large, mature, transparent and liquid market. This out-performance is expected to persist for the

next year or so but the gap between London and the regions may narrow, particularly for City offices, given the turmoil in the financial and debt markets. Nor should prime property in regional markets be written off.'

## OUTLOOK FOR PROPERTY

Although the long-term outlook for property is positive, investors must be prepared to weather any storms that may result from recent volatility. Jason Baggaley cautioned: 'Some weakness in pricing is anticipated over the next few months as more stock is brought to market and it is likely that the softer prices are accentuated for secondary assets in poorer locations with greater investor demand continuing for relatively low-risk assets. Despite some softening in the prices for poorer-quality stock, reasonable positive total returns are expected over the next few years for investors as yields compensate for any modest capital declines.'

## A RELIABLE SOURCE OF INCOME

Higher personal taxation and reduced pension contributions, as well as an all-time low interest rate, have contributed to the growing importance of income to private investors. Managers recognise the need to protect income streams and emphasise the importance of careful asset allocation in a poor macro-economic environment.

Jason Baggaley said: 'In the current environment, with a relatively weak economic backdrop, ensuring the quality and sustainability of income is a key investment decision-making criterion. Investors remain risk averse because of the economic volatility and are shunning poorer-quality secondary and tertiary stock at present.'

## STOCK-PICKING OPPORTUNITIES

'However, these conditions may provide ideal stock-picking opportunities for savvy investors where good value assets can be identified in relatively resilient areas and can be repositioned further up the quality spectrum. We expect asset management initiatives and locational choices to be the defining characteristics contributing to income returns into this year.'

'Currently, for multi-asset investors, real estate assets that are located in relatively

robust locations with reasonably financially secure firms as tenants are likely to continue to produce a compelling positive sustainable income yield that compares favourably with the depressed yield on a range of other "defensive" type assets.'

## ECONOMIC BACKDROP

Richard Kirby commented: 'This year is expected to be more difficult given the economic backdrop and the downside risk implicit in the Eurozone crisis. There are positive elements. Low interest and borrowing rates coupled with a second round of quantitative easing may offer support. The UK may be seen as a safe haven from the troubles of the Eurozone.'

'Looking to the longer term, years of low development have led to areas of tight supply where a turnaround could be quick once demand recovers. For now, though, the focus needs to be on the protection of the income stream and securing its longevity. There are differences within the market and this will involve selecting and managing property at the asset specific level.'

## A WELL-DIVERSIFIED PORTFOLIO

Property is regaining its place as a mainstay of a well-diversified portfolio. The closed-ended structure of investment companies is particularly suitable for this type of illiquid asset and the majority of the sector has bounced back following the property bubble of 2008/9. Property is once more in demand for its ability to provide investors with attractive levels of income. ■

*All performance figures are mid-market share price with net income reinvested and a 3.5 per cent deduction for charges, stamp duty and market spread to end September 2011. Source: AIC using Morningstar. The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

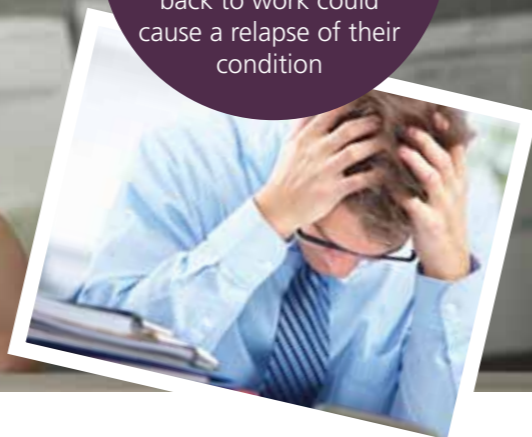


**£67.50**

Weekly  
Employment  
and Support  
Allowance

**44%**

The percentage of  
people who fear going  
back to work could  
cause a relapse of their  
condition



## Would you need to get back to work quickly if you were off sick?

Over half of UK workers are unable to survive financially for more than three months

New research from Aviva reveals that over half of UK workers (52 per cent) would be unable to survive financially for more than three months if they were off work with an illness. Around a third (30 per cent) say they would survive for less than a month. Less than one in ten (9 per cent) say they would remain solvent for a year or more.

Unsurprisingly, nearly seven in ten workers (65 per cent) cite financial concerns as the main reason to get back to work quickly if they are off sick. Regaining a sense of purpose (28 per cent), getting well (21 per cent) and providing for their families (16 per cent) are also high priorities.

### AFRAID OF RETURNING TO THE WORKPLACE

While the motivation to return to work is apparent, the research reveals that many workers are afraid of returning to the workplace after a long-term illness. A significant number of people (44 per cent) fear that going back to work could cause a relapse of their condition and a quarter (24 per cent) worry that they won't be able to work to full capacity.

Commenting on the research, Aviva, UK Health says: 'It's understandable that over 80 per cent of people think long-term sickness is something that happens to

other people. However, in reality you never know what's around the corner and few people have the savings available to support themselves and their families for very long. Employment and Support Allowance can come to as little as £67.50 a week – even less than Statutory Sick Pay – which in many cases would hardly cover a family's food shopping, let alone their mortgage and other necessary expenses.'

### PROTECTING YOUR FAMILY'S LIFESTYLE

Making sure you have the right protection can protect your family's lifestyle if your income suddenly changes due to death or illness. But with so many different insurance policies available, it can be difficult to know which ones will best protect your family from financial hardship.

That's why obtaining the right professional advice and knowing which products to recommend – including the

most suitable sum assured, premium, terms and payment provisions – is essential. ■

**IF YOU BECAME SERIOUSLY ILL OR WERE INJURED AND HAD TO GIVE UP WORK, YOU WOULD WANT TO BE SURE THAT YOUR FAMILY COULD CONTINUE TO BE SUPPORTED FINANCIALLY. WE TAKE THE TIME TO UNDERSTAND YOUR UNIQUE NEEDS AND CIRCUMSTANCES SO THAT WE CAN PROVIDE YOU WITH THE MOST SUITABLE PROTECTION SOLUTIONS, IN THE MOST COST-EFFECTIVE WAY. TO FIND OUT MORE, PLEASE CONTACT US.**

*All statistics are from a nationwide survey of 1,000 British adult employees and 500 employers, carried out for Aviva by market researchers OnePoll. The opinion poll was hosted online between 18 and 21 October 2011.*

# You've protected your most valuable assets.

## But how financially secure are your dependents?

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

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



# Tax does not end when you stop working

27 per cent worth over £34 billion paid out of pension income

The average UK pensioner household pays out 27 per cent of its income in retirement to the taxman through a combination of direct and indirect taxes which add up to an annual tax bill of more than £34 billion, new analysis\* from MetLife shows.

On an average gross pensioner household income of £18,834, that equates to £5,124 paid out in tax, with income tax accounting for nearly £1,300 of the bill and indirect taxes including VAT totalling £2,966. Council tax is the third-largest tax burden accounting for 4.5% of gross income.

### RETIRED HOUSEHOLDS

With an average of tax liability of £5,124 for the UK's 6.66 million retired households, the bill from direct and indirect taxation equates to more than £34 billion.

In total, direct taxes, including income tax and council tax, account for 11.4 per cent of the 27 per cent tax burden with indirect taxes, including VAT, duty on tobacco, alcohol and petrol, vehicle excise duty and TV licences, accounting for 15.7 per cent.

### DIRECT AND INDIRECT TAX

However, less well-off households proportionally pay out the most in direct

and indirect tax with 33 per cent of their gross household income being paid out in tax. The bottom fifth of pensioner households, in receipt of income estimated at £9,445 a year, pay £3,175 in taxes. The top fifth of pensioner households, with gross income of £35,046, see 27 per cent of their income going in direct and indirect tax.

### PLANNING FOR RETIREMENT

Dominic Grinstead, Managing Director of MetLife Europe Limited UK said:

"Retirement savers need to be aware of the effects of direct and indirect tax on their potential retirement income and to plan accordingly.

"Tax does not end when you stop working and 27 per cent of gross retirement income being swallowed up by tax is a major factor to consider when planning for retirement.

"With retirement lasting up to 20 or even 30 years, and the potential effects of

inflation to factor in as well, it is clear that savers need alternatives to the current at-retirement solutions."

MetLife's analysis shows the average retired household receives 37 per cent of its gross income from occupational pensions with 52 per cent coming from benefits and the rest coming from investments and savings. The average occupational pension pays £6,975 per household before taxes. ■

**DO YOU HAVE A FINANCIAL RETIREMENT GOAL? WE'VE A RANGE OF DIFFERENT RETIREMENT OPTIONS THAT COULD HELP YOU ACHIEVE IT. TO FIND OUT MORE, PLEASE CONTACT US FOR MORE INFORMATION.**

*MetLife analysis of the ONS Wealth and Assets Survey. ONS estimates there are 6.660 million retired households.*



# How will you achieve your investment goals?

Gaining prudent exposure to stock exchange investment without putting all your eggs in one basket

Investment trusts are a way of gaining prudent exposure to stock exchange investment but without putting all your eggs in one basket. They are often categorised into country and regional funds and sub-divided further into funds that invest only in certain industry sectors.

### INVESTMENT OBJECTIVES

With their long-term approach, usually low charges and wide choice of investment objectives, investment trusts and investment companies could be used: grow your wealth; repay a mortgage; build a retirement fund and provide income in retirement; invest for children and grandchildren to pay for school fees, university or a better start in adult life.

### LONG TRACK RECORD

Investment trusts and investment companies have a long track record of helping people to achieve their investment goals, whether it is for income, capital growth or both. They allow investors to pool their money together and spread the risk.

The easiest way to understand investment trusts is to think of them as a company, because that is exactly what they are. Just like any other company, they issue shares to raise money from shareholders and then invest that money.

### SHARES OF OTHER COMPANIES

The difference between investment trusts and normal 'trading' companies is that investment trusts invest their money in the shares of other companies, rather than in physical assets such as factories or mobile phone networks. Since they are like a company, they are also able to borrow money to invest. However, only a few take advantage of this to any significant extent.

Investment trusts are often referred to as 'closed-ended funds'. Like ordinary companies, they have a set number of shares in existence (although they do occasionally issue more or buy some back).

### NET ASSET VALUE

The value of all types of investment fund is made by reference to their net asset value (NAV) per share or unit. This net asset value per share is basically the total value of the trust's portfolio of investments divided by the total number of its own shares or units.

Investment trust shares are traded on the stock market just like those of any other company and so their prices can change on a minute-by-minute basis, according to how many shares investors are buying and selling.

### TRADING AT A DISCOUNT

Investment trusts calculate their 'net asset value per share' at regular intervals. Their share prices tend to trade at a discount to their net asset value. There are a variety of reasons for this. One reason is that you could buy the same portfolio of shares yourself directly in the market, without suffering the ongoing management charge.

These discounts make investment trusts slightly more risky, since the value of your investment is affected by the amount that the 'discount to NAV' changes during the period of your investment, as well as the performance of the assets they hold. ■



INVESTMENT TRUSTS AND INVESTMENT COMPANIES CAN BE A PARTICULARLY EFFECTIVE WAY TO INVEST FOR APPROPRIATE INVESTORS. IF YOU WOULD LIKE TO FIND OUT MORE, PLEASE CONTACT US.

# Autumn Statement

## The state of the economy and the government's future plans

On 29 November 2011, the Chancellor of the Exchequer, George Osborne, announced the Autumn Statement, which provided an update on the government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility. These are the key announcements from his speech.

### PAY, TAXES AND ALLOWANCES

Public sector pay awards will be frozen at 1 per cent at the end of the two-year pay freeze.

Most working age and disability benefits will be uprated by the September inflation figure of 5.2 per cent and the child element in the child tax credit will be increased in line with inflation, rising by £135 a year in 2012/13. But the £110 above-inflation increase that was planned for 2012/13 will not go ahead.

The state pension age is set to rise from 66 to 67 from 2026. Mr Osborne said that it will save £59bn and will not affect anyone within 14 years of receiving their state pension today.

The state pension will rise by £5.30 to £107.45, in a move which Mr Osborne said was the largest ever cash rise. Pensioners receiving pension credit will also benefit from an increase worth £5.35.

January's planned 3p rise in fuel duty was cancelled and August's increase will be limited to 2p.

### HOUSING

The Right to Buy scheme for council house tenants is back, offering a

50 per cent discount and the money going to build new homes to stimulate the construction industry.

A £400m scheme will jump-start stalled construction projects in England.

The government will underwrite mortgages for 100,000 young families trying to get on the property ladder.

### TRANSPORT AND INFRASTRUCTURE

The government is publishing a National Infrastructure Plan, identifying over 500 projects for the next decade.

Budget savings will enable the government to put £5bn into these projects along with a further £5bn it is committing over the next spending period. It has also struck an agreement with two groups of British pension funds to unlock an additional £20bn of private investment.

Infrastructure measures to be funded by a new £30bn include electrifying the TransPennine Leeds-to-Manchester rail route, building a new railway link between Oxford, Milton Keynes and Bedford, and extending the Northern Line of the London underground to

Battersea, which will create 25,000 jobs.

Mr Osborne confirmed that rail fare increases would be limited to the Retail Price Index (RPI) plus 1 per cent, rather than RPI plus 3 per cent.

### FAMILIES, EDUCATION AND EMPLOYMENT AND SKILLS

Families in the south-west of England will have their water bills cut by £50.

A further £380m will be invested by 2014/15 to extend the government's offer of 15 hours of free education and care a week for disadvantaged two-year-olds, covering an extra 130,000 children.

The government will provide an additional £1.2bn for capital investment in schools in England, including an extra £600m to fund 100 additional Free Schools by the end of this Parliament.

A £1bn youth contract will fund measures including wage incentives for 160,000 young people to make it easier for private sector employers to take them on and at least 40,000 incentive payments for small businesses to take on young apprentices.

**£107.45**

The amount the state pension will rise to - an increase of £5.30

**£400m**

The amount allocated to a new scheme to jump-start stalled construction projects in England

# Junior Individual Savings Accounts

## Providing a unique set of benefits and tax advantages

With the launch of the Junior Individual Savings Account (ISA) last November we have provided answers to some of your popular Junior ISA questions

The Junior ISA brings to parents and children a unique set of benefits and tax advantages. Nothing else allows a child to own investments in their own right in a completely tax-efficient way and it is a savings vehicle that enables children to roll their investments into another tax-efficient wrapper at the age of 18.

### INVESTING FOR CHILDREN

Young people have the opportunity to benefit from the long-term performance of stock markets and in a tax-efficient way. At the same time, the introduction of the Junior ISA could help reinforce the benefits of long term saving. Children need all the help we can give them due to increasing life expectancy and the fact that cash-strapped employers and governments are increasingly putting the onus on individuals to prepare for their own retirement security. The format of the Junior ISA makes investing for children simpler than ever.

### YOUR QUESTIONS ANSWERED

#### Q: What is a Junior ISA?

**A:** Junior ISA is a tax-efficient savings account designed for adults to help children save and invest for their future.

#### Q: How much can be contributed into the Junior ISA?

**A:** The Junior ISA allowance is £3,600 per annum. This limit will be indexed by CPI from 6th April 2013 onwards.

#### Q: Is it possible to invest in both Stocks and Shares and Cash within a Junior ISA?

**A:** The £3,600 allowance can be in Stocks and Shares, Cash or a combination of the two.

#### Q: Is it possible to open a Junior ISA with a different provider each year?

**A:** No. Regulations prevent you from opening a different Junior ISA with separate providers for each plan year. If you wish to use a new provider you need to transfer your existing Junior ISA to them in

full before making any further investments.

#### Q: Is it possible to take income from the Junior ISA?

**A:** No. Income is not permitted for Junior ISAs. If the Junior ISA is invested in income-paying investments then income will automatically be reinvested.

#### Q: Can money held in a Junior ISA be accessed at any time?

**A:** No, money held in a Junior ISA cannot be accessed until the child is 18. The account is set up for the child and only they can access the money when they reach 18 years of age.

#### Q: Who is eligible to open a Junior ISA?

**A:** Junior ISAs are available for any child resident in the UK who was:

- born on or after 3 January 2011.
- born before September 2002 and is under 18.

#### Q: Who can pay for the investment into the Junior ISA?

**A:** Once the account has been opened by the parents or guardians, payments for Junior ISA investments can be made by anyone including parents of the child, family members or friends. Alternatively, investments can be made directly from the child.

#### Q: The potential for the Junior ISA

**A:** What Junior ISA will bring to parents in terms of saving/investing for your child is very compelling, a savings solution that offers benefits and tax advantages to both parent and child that no other savings vehicle has ever offered before. For example, there is no other savings vehicle that allows a child to own investments in their own right which is completely tax-efficient; there is nothing currently that enables the child to roll their investments into something tax-efficient at 16; and never before have the parents themselves been sheltered from the tax man when investing for their children. In addition, a Junior ISA also offers grandparents a way of making the most of

their inheritance tax allowance in advance and is also tax-efficient for the child. ■

*The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*



# income

income

## Isn't it time you had a financial review?

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

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

**To discuss your options, please contact us.**

## Income is top of the 2012 wish list

The good news is that there are plenty of alternatives for investors seeking to generate income

Last year had more than its fair share of political, natural and financial upheavals – attention now turns to the future. Will equities and credit markets have a better year and can gilts reproduce the gains they enjoyed in 2011? To view returns purely in terms of capital gains, however, is to overlook one of the most potent elements of investment – income.

### VALUABLE CONTRIBUTION

Over the long term, income tends to provide the majority of total return. Even over the short term, income can make a valuable contribution to a portfolio's return. For risk-averse investors income has generally been achieved by depositing money in a cash savings account or buying government bonds. Achieving a satisfactory level of income from either of these strategies, however, has become increasingly difficult. In the current environment of risk aversion, the interest rates paid on cash and the yields on gilts have fallen to such low levels that they fail to keep up with inflation. The real value of investors' money is therefore being eroded.

### AUSTERITY MEASURES

Circumstances appear unlikely to change any time soon. With UK economic growth forecast to be a mere 0.7 per cent in 2012 according to the Office for Budget Responsibility and the government's austerity measures taking effect in earnest,

monetary policy is likely to have to do the stimulatory grafting for the economy.

Interest rates are therefore expected to remain low, so meagre returns on cash will likely persist. Gilt yields are also expected to remain low, held down by Bank of England asset purchases and the relative safe haven aspect of gilts whilst the eurozone crisis remains in flux.

### INFLATION PICTURE

The inflation picture also looks unlikely to assist savers. Even accounting for the fact that the VAT rise will drop out of the 2012 calculations, the Bank of England still expects the consumer price index (CPI) year-on-year inflation rate to end 2012 at between 1-2 per cent according to its November Inflation Report. External forecasters in the report are less optimistic, predicting CPI will finish 2012 at 2.1 per cent year-on-year. Such a level is sufficiently high to erase the interest on many savings accounts but not high enough to scare the Bank into raising interest rates. ■

**THE GOOD NEWS IS THAT THERE ARE PLENTY OF ALTERNATIVES FOR INCOME INVESTORS, IF YOU ARE PREPARED TO ACCEPT POTENTIAL RISK TO YOUR CAPITAL. WITH INTEREST RATES ON SAVINGS ACCOUNTS AT AN ALL-TIME LOW, HOW COULD YOU BEST GENERATE INCOME FROM YOUR HARD-EARNED CASH? TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US.**

*The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

# Multiple pension pots

## UK workers seek simpler ways to manage their retirement money

Britain's workers are struggling to manage their pensions savings because they are scattered across numerous employers in small workplace pension pots, research\* from Aviva shows.

Almost half (49 per cent) of workers surveyed said they had multiple pension pots, with one in two (58 per cent) unclear of the overall value of their pension savings, but 75 per cent still felt they would not have enough to live comfortably in retirement.

### PENSION SAVINGS

Two in three people (67 per cent) said it was important or very important to see all their pension savings in one place, 64 per cent were in favour of consolidating their various pots into one "single pot", and of those 96 per cent said that they would be much more likely to do this if there was a simple system in place to do it.

The research suggests that employees' lack of clarity on their pension savings makes it harder to assess whether they are putting enough savings aside for their retirement.

### ACROSS CAREERS

Over a third (34 per cent) said they were concerned about how they would manage their separate pension pots across their careers.

Pensions Minister, Steve Webb has spoken about helping workers pull their small "stranded" pension pots together, making it simpler and more cost effective for individuals and pension

providers to manage. The Department for Work and Pensions (DWP) has also indicated that it will consult on options for transferring pension pots between auto-enrolled schemes.

### WORKPLACE PENSION

Of those surveyed just over half (57 per cent) had a workplace pension, in line with the UK average, with 43 per cent having between two and four small pension pots and 6 per cent having five or more. On average, employees tended to stay with an employer for four and a half years.

Paul Goodwin, director of workplace pensions at Aviva said: "What's clear from this research is that many workers in the UK are saying they want to be able to easily manage their retirement savings and to see the value of their total pension pot in one place.

"There is a constant drumbeat about people not saving for retirement, which is valid. However, when you cannot track your savings in a simple way, it's very hard to know how much more you actually need for your retirement.

"With auto-enrolment being introduced we have even more opportunity to encourage employees to actively save into a pension. However, we also need to recognise that those

employees benefiting most from auto-enrolment, largely those on lower salaries, may also be left with a number of small pots.

"A simple solution for those in auto-enrolled schemes would be to allow automatic transfers between similar auto-enrolled schemes so that an employee's pension follows them as they move jobs." ■

**IF YOU ARE CONCERNED ABOUT WHAT TO DO WITH YOUR DISPARATE PENSION POTS IT IS ESSENTIAL TO SEEK PROFESSIONAL FINANCIAL ADVICE BEFORE YOU DECIDE WHETHER TO CONSOLIDATE YOUR PENSION MONEY IN ORDER TO ASSESS WHETHER IT WILL BE OF BENEFIT FOR YOU TO DO SO. TO FIND OUT MORE ABOUT HOW WE COULD HELP YOU PLAN - PLEASE CONTACT US.**

\* The Aviva research was conducted by OnePoll in November 2011, with 2,000 respondents.

**64%**

The percentage of people in favour of consolidating their various pension pots into one "single pot"

**58%**

Percentage of workers surveyed that said they were unclear of the overall value of their pension savings

# Building an investment portfolio

## Achieving consistent returns by spreading your money between several different types of assets or markets

Most investors choose a combination of funds to make up a diversified investment portfolio. Different markets perform differently at different times so one of the most effective ways to achieve consistent returns is to spread your money between several different types of assets or markets.

Diversification gives you greater potential for growth because your portfolio is not dependant on any one company, fund or sector doing well. So if one of your investments is performing less well, others should be performing better to compensate. This means you reduce your potential risk.

### Diversification can be achieved in a number of ways:

- By asset class - the simplest form of diversification is spreading your money across equities, bonds, cash and property
- By country - investing in the UK and internationally means you are not limiting your investment to the fortunes of only one market
- By industry sectors - consider investing across a variety of sectors such as energy, financial services, industrial, and health care
- By investment style - creating a balance between funds that concentrate on growth opportunities and others that focus on value stocks - those whose potential has not yet been recognised by the market
- A successful portfolio relies on properly dividing your money among different types of investment.

### UNIT TRUSTS

Unit trusts and their more modern counterpart open-ended investment companies (OEICs) make up most of the investment fund market. The funds are split into units and you buy some when you invest. The value of those units goes up and down in line with the performance of the assets in which the fund manager has invested.

The number of units that make up the fund increases and decreases as investors put money in or take it out. When people want to cash in their investment, the fund manager will sell assets to realise the cash.

If the fund manager is doing a good job, the underlying investments should increase in value over time and when you decide to cash in your units, they will be worth more than when you bought them. This will be the profit on your investment.

### INVESTMENT TRUSTS

Like unit trusts and OEICs, investment trusts are pooled investments that bring together money from a number of investors. However, this type of fund is run as a company and when you invest, you buy shares in it which are listed on the stock market.

This means the value of your investment is affected by the ups and downs of the market as well as the performance of the assets chosen by the fund manager. While the number of units in a unit trust fluctuates, the number of shares in an investment trust is constant and if you want to cash in your investment you will have to sell your shares.

The cost of shares in an investment trust does not usually accurately reflect the value of the underlying assets - most trade at a discount to their real value.

### SECTORS AND THEMES

The managers of unit trusts, OEICs and investment trusts will have a fund objective, which is outlined in literature given to potential investors. They may choose to target income, capital growth or a combination. They will usually do so within a particular sector or according to a particular theme.

So a fund may be a UK growth fund, which aims to increase the value of an investor's capital by buying shares in companies based in the UK, or it may be a smaller companies fund, which invests only in companies below a certain value.

There are hundreds of different sectors, some containing many more funds than others. The smallest sectors are the most

specialist, offering funds that focus on a small geographical area or a tiny area of the market.

### TRACKER FUNDS

These are funds which track the performance of a particular market or index. In theory, two tracker funds tracking the same thing should produce equal performance, but in practice this isn't the case.

Different charging structures and different ways of tracking can result in two funds producing different returns. Because tracker funds are not actively managed, they tend to have lower costs than managed funds.

### CHOOSING A FUND

The suitability of a particular growth fund will depend very much on why you are investing.

If, for example, you are investing to build up a lump sum to repay your mortgage or pay for your children's education, you ought to concentrate on funds focused on mainstream, lower-risk investments such as blue-chip shares or unit trusts that have some gilts in their portfolio.

If you fall into this category, you could confine your search to the UK equity growth sector and opt for broad-based funds.

But if you have no specific purpose for investing and can afford to take a risk, a move into funds which invest in smaller companies, technology and the internet, or overseas and emerging markets could be more rewarding. ■

*The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

# Estate planning is for everyone, not just the very wealthy

£323,932\*

Average value of a detached house in the UK

## Help minimise the effect of tax and ensure that your beneficiaries are looked after

Estate planning is for everyone, not just the very wealthy. It is about ensuring control of your estate and planning ahead, so there are no uncertainties about how it is managed in the future. It can also help minimise the effect of tax and ensure that your beneficiaries are looked after, especially young children or any dependants who may be vulnerable and need special care.

- The benefits of estate planning at a glance
- You decide how and to whom your estate is paid
- You can be sure that school and university fees are paid
- You can make plans for the care of beneficiaries who are vulnerable and need looking after, such as young or disabled children
- You can help to mitigate the effect of Inheritance Tax

estates are likely to be liable for Inheritance Tax than they realise.

### Q: "I'm worried about the impact of Inheritance Tax - what can I do?"

A: Inheritance Tax is often called a voluntary tax because with careful planning, how much your estate has to pay can be reduced or removed completely. From writing a Will, to understanding the exemptions and making lifetime gifts, there are currently several options which could help mitigate Inheritance Tax.

### Q: "I want to be in control of my assets and who gets what and when?"

A: There are steps you can take to create more certainty about how your estate is managed. A Will is critical of course. Trusts can also help to ensure who your beneficiaries are and when they can receive money from your estate. ■

YOU SHOULD ALWAYS RECEIVE PROFESSIONAL FINANCIAL ADVICE AND MAKE SURE THAT YOUR ESTATE PLANNING COVERS ALL THE AREAS HIGHLIGHTED ABOVE. TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US.

\* Detached UK house price: April - June 2011 - source: [www.bbc.co.uk](http://www.bbc.co.uk). The tax treatment of any investments depends on your individual circumstances and may be subject to change in the future. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

### YOURS QUESTIONS ANSWERED

#### Q: "Isn't estate planning only for the very wealthy?"

A: Not at all. Everyone needs to think about how they want their estate to be handled when they die, and how their spouse and dependants will be looked after. And with the average house in the UK worth £323,932\*, many more people's

# Achieving a comfortable retirement.

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

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

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



# The loss of pension can be a forgotten cost

## Why having children in the household impacts on retirement decisions

New research among 45-65 year olds by Standard Life reveals having children living in your household can have a big impact on your retirement decisions. Almost half of respondents (49 per cent) with two children in the household have no financial plans to provide for the future, compared to just over a third (35 per cent) without children. Children also impact decisions on when to stop working and retire. You are more likely to retire later if you have children in the household with 10 per cent of adults who aren't retired not planning to retire until 71-75 compared to only 2 per cent who don't have children living with them.



### PRICE INFLATION

Taking a career break or deciding to work part time can have a significant impact on your pension fund at retirement. A female saving £150 a month, increasing annually in line with price inflation from age 20 to age 65, could have a pension fund of £559,000<sup>1</sup>. Taking a 5-year career break from age 30 during which pension contributions stop reduces the pension fund to £480,000 - a decrease of over 14 per cent. If you work part-time and half your contributions from age 30 onwards this could reduce the pension fund to £380,000 - a decrease of over 31 per cent<sup>1</sup>.

### LOSS OF PENSION

John Lawson, Head of Pensions Policy at Standard Life said: "It isn't surprising that those with children living in the household have even more financial constraints than those without. Apart from the actual cost of bringing children up there are so many other considerations these days - such as childcare costs, then for some there are school and university fees to consider. There is obviously only so much money to go round. But the loss of pension can be a forgotten cost for many when making decisions, in particular by going part time. "But there are things you can do, and it's never too late. If we can save even a small amount for retirement it can make a difference. How and when we retire has changed, we no longer have to retire at age 65, we can work flexibly for much longer."

### Other findings from the research of 45-65 year olds include:

- 34 per cent of those with two children in the household will make up for lost time and travel the world in retirement

- 63 per cent with two children in the household are looking forward to spending their time with their children and grandchildren in retirement
- 44 per cent of those questioned without children in their household and who haven't yet retired intend to stop working completely. If you have one child in the household, 42 per cent intend to stop work completely but if you have two children only 27 per cent intend to stop working completely

### As part of the Changing Face of Retirement research, Standard life has published a list of top tips to help people re-engage with their financial planning:

- Don't panic!
- Seek professional financial advice
- Continually review your financial goals
- If you don't have one, make a plan.
- Ask for a state pension forecast (and calculate your state pension retirement age)

### REVIEW YOUR INVESTMENTS

- Consider deferring taking the state pension at your default retirement age - for every year you defer taking benefits you can increase the pension by 10.4 per cent<sup>2</sup>
- If you have moved jobs, ensure you have kept your old employer up to date with address changes so you can claim any workplace pension when you retire

### IF YOU CAN, INCREASE YOUR SAVINGS

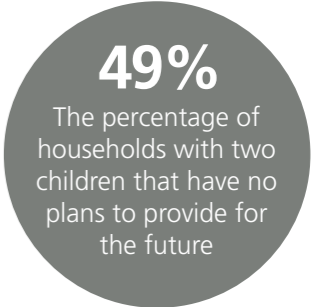
If you're a higher rate tax payer, ensure you claim the tax-relief. Standard Life estimates 300,000 people are not claiming this currently

(Tax relief may be altered and its value depends on individual circumstances). ■

**EVEN THOUGH YOU'VE ALREADY MADE A START WITH YOUR RETIREMENT PLANNING, IT'S A GOOD IDEA TO TAKE STOCK EVERY NOW AND THEN TO MAKE SURE YOU'RE STILL ON COURSE TO ACHIEVING YOUR RETIREMENT OBJECTIVES. CIRCUMSTANCES CHANGE AND PLANS NEED TO BE ALTERED - TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US.**

1. The pension fund figures assume investment returns of 7 per cent p.a. before charges, an annual management charge of 17 per cent p.a. and price inflation of 2.57 per cent p.a. The first monthly contribution is made at exact age 20 and the last contribution is one month before the 65th birthday. The pension fund of £559,000 adjusted for price inflation in today's terms would be £184,000 at age 65. A five year career break would reduce the figure to £158,000 in today's terms. Reducing contributions by half from age 30 would reduce the figure to £124,000 in today's terms.

2. Source: DirectGov.



# More than one third of over-55s have yet to plan their retirement

People become more financially organised in the final years before retirement

Over a third (37 per cent) of economically active over-55s have yet to make plans for their finances in retirement, according to the latest Real Retirement Report from Aviva.

## THINK SERIOUSLY

The eighth quarterly Report reveals evidence which runs contrary to the accepted wisdom that says people become more financially organised in the final years before retirement. The figures show the typical over-55 only starts to actively think about their retirement income at age 48, but it takes another four years (age 52) before they start to worry or think seriously about it.

The main reasons given for this failure to prepare are: a lack of money (47 per cent), being hampered by family commitments (19 per cent), and being too busy to think about it (8 per cent). The financial implications of this can be serious, with more than two thirds (67 per cent) of 65-74 year-olds also saying that failing to prepare financially for retirement is their biggest regret.

## UNDER PRESSURE

The research also highlights the pressure the ongoing economic conditions are having on the finances of the over-55s. It found that 'grey inflation' has risen to 5.14 per cent in the last year, which has caused the average savings pot to fall 27 per cent over the last year from £15,262 (December

2010) to £11,153 currently. At the same time average incomes for the over-55s have fallen 4 per cent from £1,335 to £1,285 over the same period.

The report found the typical person approaching retirement (55-64 years-old) has a smaller savings pot (£6,665), bigger debts (£79,598), and saves less each month (£28.06\*) than those aged over-75, whereas one year ago this trend was reversed.

## MONEY TALKS

While 37 per cent of economically active over-55s have yet to make any practical preparation for retirement such as researching the potential size of their

assets or how best to invest them, the latest Real Retirement Report finds 39 per cent say they have worked out how much income they will receive from their pensions/investments. In addition, 25 per cent have discussed the financial and emotional implications of retirement with their partner, 23 per cent have started to research pension/annuity options, 22 per cent are looking to pay off any unsecured borrowing as quickly as possible, and 15 per cent have spoken to a financial adviser about their finances.

## TIME TO WIND DOWN

As a consequence of their financial situation, more of today's over-55s are likely to end up having to work for longer. Following the end to the Default Retirement Age in October 2011, which means people can no longer be forced to retire by their employers, the report found 61 per cent of over-55s say changes to their financial, employment, or personal circumstances could now see them working longer.

More than a quarter (26 per cent) of over-55s say they would keep working if they could find a job they could do when they are older, 18 per cent would stay on

with their current employer if they were offered flexible/part-time work, and 13 per cent would carry on with the same job if their employer asked them to. Just 39 per cent are resolute about the date they plan to retire.

## APPROACHING RETIREMENT

Clive Bolton, 'at retirement' director at Aviva, said: "Everyone has seen their financial situation impacted over the last couple of years, but those approaching retirement are the most vulnerable as they should be looking to secure their financial future. It is of concern to find so many people are finding a lack of money is the main factor inhibiting them from planning their retirement finances.

"As such it is noteworthy that even though the Default Retirement Age has only just come into law, many of the UK's over-55s are already thinking that they will be working for longer than they would have anticipated a few years ago.

"Everyone's financial circumstances have been affected by the recent economic downturn, but it is crucial that people still plan for the long term. It is clear from this report that there are certain psychological barriers to saving we must take into account when meeting this challenge." ■

AS THE ONUS TO SECURE A COMFORTABLE RETIREMENT IS PLACED FIRMLY ON THE INDIVIDUAL, WE CAN HELP YOU NAVIGATE THROUGH THE MAZE OF DIFFERENT RETIREMENT OPTIONS. PLEASE CONTACT US TO DISCOVER THE SERVICES WE OFFER AND TO ARRANGE A MEETING.

\* Figures from December 2011. The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.



# Happy ISA Year 2012

## Don't miss out on using your tax-efficient allowance

An Individual Savings Account (ISA) is a tax-efficient wrapper. Within an ISA you pay no capital gains tax and no further tax on the income, making it one of the most tax-efficient savings vehicles available.

If you are planning to open or transfer an existing ISA, you have until 5 April, but don't leave it until this date. If you miss the deadline, you'll lose your £10,680 allowance for the 2011/12 tax year forever. HM Revenue & Customs says your ISA application must have been received by your ISA provider and it must also have been processed to qualify.

### WHAT TYPES OF ISAS ARE THERE?

There are two main types of ISAs: Cash ISAs and Stocks and Shares ISAs.

Cash ISAs work in the same way as normal savings accounts. You choose if you want a fixed rate account, an easy access (or instant access) account or a regular savings account. The only difference is that you don't pay income tax on the interest you earn.

With a Stocks and Shares ISA you can invest in individual stocks and shares or investment funds. Any profit you make is not subject to capital gains tax. However, you pay 10 per cent tax on dividend earnings.

### WHO CAN SAVE IN AN ISA?

Anyone who is 16 or over and a UK resident can save money in a tax-

efficient Cash ISA but to save in a Stocks and Shares ISA you need to be at least 18.

### HOW MUCH CAN I INVEST?

As of April 2011, the ISA limit increased for everyone by £480 to £10,680 per tax year. Of this, the maximum amount you can put into a Cash ISA is £5,340, and then the remainder can be invested into a Stocks and Shares ISA.

Alternatively, you may choose to allocate the entire £10,680 into a Stocks and Shares ISA.

### WHEN SHOULD I INVEST?

As long as you have not exceeded the current £10,680 ISA limit you can invest in an ISA at any point during the tax year and, depending on the ISA provider, you can allocate lump sums or monthly contributions that fit around your lifestyle.

### WILL ISAS ALWAYS BE TAX-EFFICIENT?

The government has promised to keep ISAs indefinitely. However, the tax treatment of ISAs may change in the future.

### CAN I TRANSFER MY EXISTING ISA MONEY?

You can transfer the money saved in a Cash ISA to a Stocks and Shares ISA, even if it was saved in previous tax years, without affecting your annual ISA allowance.

**TO ENSURE THAT THERE ARE NO DELAYS IN PROCESSING YOUR ISA APPLICATION, PLEASE CONTACT US SOONER RATHER THAN LATER. AGAIN, DO NOT LEAVE THIS UNTIL THE LAST MINUTE. IF YOU DO AND YOUR ISA APPLICATION IS NOT PROCESSED ON TIME, IT WILL BE CLASSED AS PART OF NEXT YEAR'S ISA ALLOWANCE AND YOU WILL HAVE LOST THE REMAINDER OF YOUR TAX-EFFICIENT ALLOWANCE FOREVER.**

*The value of these 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 an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*