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Market ups and downs – but China always rising?

It's certainly been quite a summer in investment and economic terms. Markets remain jittery driven up, by and large, by specific news events but down by wider economic worries. Concerns remain about the UK, USA, the fringes of the Eurozone and even China.

Closest to home there are worries about the UK's fragile recovery. Fears are focused on the impact of planned cuts. April saw a FTSE year high of 5,825, it dipped below 5,000 in May, reached around 5,400 in early August but in recent days has fallen back just below 5,200. Such market behaviour just about defines the term high volatility.

At least, the bulls can take heart from the fact banks look to be in reasonable shape while merger activity is picking up. Two of the attempted takeovers to make the headlines are mining outfit BHP Billiton's \$40bn hostile bid for Canada's PotashCorp, and RSA Insurance's bid of £5bn for Aviva's general insurance arm.

Staying share specific, those concerned with BP will know it is still embroiled in controversy, even with the well capped and the departure of former chief executive Tony Hayward. The share price remains well below pre oil spill levels just short of 400p instead of the 600p and more it was priced at before the disaster. On BP's dividend policy however, there has been one significant vote of confidence. BP suspended 2010



payments to create a compensation fund, but Tineke Frikkee, manager of the £2.5bn Newton Higher Income fund, says she expects dividends to resume next February.

Aside from markets, inflation has remained stubbornly high with the Consumer Price Index at 3.1% in July, down just 0.1%. This is bad for savers as the base rate has been kept low.

The Bank of England's Monetary Policy Committee kept interest rates at 0.5% in August for an extraordinary eighteenth month in a row. The inflation hawk on the committee Andrew Sentance wanted to raise rates but other members believe the cutbacks due to begin this autumn will subdue growth and see lower inflation eventually. Retail sales actually grew 1.1% in July so it seems the British have not entirely fallen out of love with shopping.

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Autumn 2010

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"Do you need a financial review?"

Call us today to arrange a consultation.

The planned VAT increase to 20% next January came under fire from Henderson New Star's respected chief economist Simon Ward on his Money Moves Markets website. He argues that in 2010-11 cuts and tax rises mean the deficit will be £13 billion less than the newly formed Office for Budget Responsibility has predicted undermining the case for a VAT rise which may now be quite risky for our economic prospects.

The prospects for house prices are also poor. Giant accountancy firm PwC estimates that UK house prices have already fallen 17% in real terms since the start of the crisis, after inflation is considered. It says that though prices will rise at 2% a year for the next decade, they will not recover lost ground until 2020.

Internationally the state of the US economy has caused anxiety in markets around the world with poor figures for US unemployment. New claims jumped slightly in August when markets expected a fall. There were also some bad figures for regional US manufacturing raising fears the country could slip back into recession. The Dow Jones Industrial Average has fallen back recently amid talk the US may need

to stimulate its economy further and even some discussion of more quantitative easing dubbed QE2.

In Europe, Germany is proving a success story. It is expected to grow by 3% this year though the Bundesbank poured cold water on further optimism predicting the global economy will slow down in the second half.

However, the headlines were hogged by China in August which became the world's second largest economy overtaking Japan. GDP was measured at \$1.337 trillion (£851bn) compared with Japan's \$1.288 trillion in the second quarter. China's economy grew at 11.9% in the first quarter and 10.3% in the second of 2010. There is some doubt about how well China will do in the rest of the year and whether it can make up for any US underperformance. But there is no doubt about its general direction of travel. Some predict China will surpass the US in around 2020. Investors need to think about what this may mean for their future investment strategy.

To review your investments or for advice on your investment strategy [contact us](#) – we are here to help.

“Need help with Inheritance Tax planning?”

Call us today to arrange a consultation.

Inheritance Tax – the more politicians promise the more the threshold stays the same

At one stage the Conservative Party's policy was to take the Inheritance Tax threshold to above £1m. It was even credited as one reason for Gordon Brown putting off the election that never was way back in 2007. We have now, finally, had that election, but the IHT threshold has stayed put at £325,000 sacrificed as part of the coalition agreement and also possibly because of the state of the public finances.

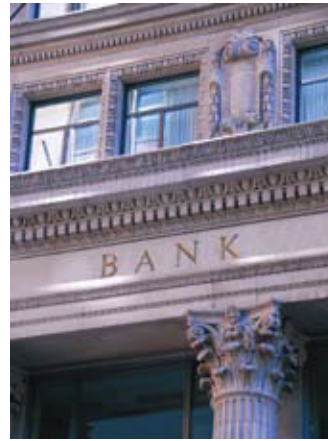
As a result, lots of people need to consider IHT if they are worried about how much they plan to pass on to their children and relatives. At least the rate at which people will be caught by the frozen threshold may slow down with slowing house price growth but that is cold comfort for those with properties valued above it.

There are many simple steps that can help you plan for any IHT due on your estate much of it to do with planning in advance.



These include calculating the value of your assets to see approximately how much you might be liable for, writing a will and making sure any life insurance arrangements you have, are written in trust. You should make sure you sign a nomination form explicitly saying where any death benefits offered by your employer should go rather than into your estate. You should also consider that you do not pay tax on what is left to your spouse or civil partner at least until their death but the same may not apply to your partner.

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Don't bank on just one bank

There has been newspaper talk about the setting up of a European Union-wide scheme for banking compensation. Yet for the vast majority of UK savers it is the UK's own scheme, the Financial Services Compensation Scheme (FSCS) that is the most relevant body.

Indeed, when it comes to selecting a bank account some of the same principles apply as to investing i.e. it is wise to spread your risk. It has now been established, of course, that it is unlikely the UK Government will allow a UK bank to fail. However, that does not mean you should put all your saving eggs in one bank's basket.

At the moment, the maximum levels of compensation are £50,000 or €50,000 (whichever is higher) per person or per small business per bank. Given the fact there have been lots of takeovers it is worthwhile checking if you have two accounts with the same institution. Some groups are regarded as having separate licences for compensation purposes, some only have one.

In general where a building society is taken over by another society, if you had two accounts pre-merger, then you are covered twice, but not if you open accounts post merger even if the accounts are branded differently. Banks can retain separate licences. This is all quite complicated so if you have two accounts with one parent group that come to more than £50,000, you should check where you stand.

The EU is planning a wider scheme that will see €50,000 offered for banks across Europe. There are a couple of things to note. If you invest through an offshore bond into a bank in another jurisdiction and it collapses there may be problems with getting compensation. Effectively the life office may be seen as the depositor not you as an individual. Second, consumer group Which? does not recommend some Post Office savings accounts because they are offered by a tie up with an Irish bank. Whilst it has suggested savers avoid foreign banks at the moment, **talk to us** if you would like to know more.

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There are also many trust arrangements between husband and wife that can help pass more on to children and grandchildren that might be considered. Some investments such as AIM shares attract relief for these purposes and there are ways to give money

away but note that these may attract death duties for up to seven years.

The trend over the last few years has been to tighten the HMRC rules and all of these strategies especially those involving specialist trusts require the help of an expert, so **contact us** if you need help with your IHT planning.

Incoming inflation

Cautious savers and those who wish to take an income from their savings have had a difficult time of late. The problem is the difference between the rate of inflation – whether the retail price index at 4.8% (used to set things like rail fares) or the consumer price index at 3.1% (the latter does not include property) – and the base rate which sits at a lowly 0.5% currently.

This has meant that very few banks are paying a generous savings rate unless you tie your money up for a very long period of time. The problem has been compounded by a decision from National Savings & Investments to withdraw its fixed interest and index linked savings certificates with the Government suggesting it was pulling in too much money.

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Design for life

Life planning is one of fastest growing concepts influencing thinking about financial planning. It has been used to give a new framework to much of the help that advisers have given to clients in the past.

It may also help you better understand your side of the relationship with your adviser and indeed your money and investments. It aims to align your goals in life with the adviser role as financial planner and should therefore maximise the value you get from it.

In essence, life planning is a guided process by which we can help you take stock of your life, clarify your goals and challenges and identify the steps necessary to achieve those goals. It can mean for example setting aside enough money and adopting a particular investment strategy that should allow you to retire at a certain date, properly considering the amounts of money you may wish to leave to your family or how much you may need to support children through education and higher education. Much of this is already what a professional adviser provides i.e. a lot of advice is already life planning, it may simply not be framed in these terms.

However life planning should go further than that. The sort of questions involved will not just focus on amounts of money needed by a certain date, though that is important, but should also get clients to identify a typical month or even year in retirement to really bring out what may be necessary in planning terms. The idea is for the client to own their life and financial plan completely. The concept can have a bit of a New Age feel to it, but done correctly we, the planner, will follow the lead of the client, not the other way around.

One of the best known exponents of life planning, Massachusetts-based George Kinder has written a book on the subject entitled "Seven Stages of Money Maturity: Understanding the Spirit and Value of Money in Your Life aims to change the way clients and advisers consider financial planning". Mr Kinder now trains advisers



from around the world including the UK in the concept and it is becoming increasingly popular.

Among many of the questions Mr Kinder suggests are asked of you, these three are among the most famous three quoted from a recent interview;

"If you had all the money that you needed what would you do with your life?!"

"If you suddenly discovered you only had 5 to 10 years to live what would you do? How would you live your life? What would be different?"

"What would you do if you only had 24 hours left to live?"

Here is a fuller summary of the technique.

- Identify the naive messages carried around since childhood
- Understand the feelings that impact on financial decisions
- Develop practical knowledge about budgeting and investing
- Approach financial challenges with energy and humour
- Create a life that is financially and spiritually fulfilling and free of the weight of old patterns and habits around money.

Of course, this sort of life planning may not be to everyone's taste and some advisers incorporate more or less of the thinking into what they do but for those who believe they may suit this approach [contact us](#) – we would be happy to help.

'Incoming Inflation' continued

For those worried or who wish to get their savings to work harder we can help. We can assist you with finding products that will help you obtain an income with a high degree of safety for your capital or even simply find accounts that pay something extra on your money. It may also be possible to rearrange aspects of your portfolio to pay out a slightly increased income to make up for the difficult interest rate climate at present.

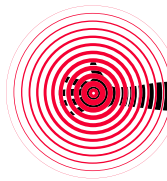
If you are looking to take more risk to generate more income, it would be best to do so with the help of an adviser to make sure you are not taking unnecessary risks with your savings in this environment. There are many lower risk bond funds or income funds out there you might consider as part of wider financial plan so [contact us](#) if this is of interest.

Auto-enrolment – soon you'll have to bother *not* to have a pension

Employers should be making plans for yet another government pensions reform due to be phased in from 2012. Those companies that provide a pension scheme will have to introduce auto-enrolment. Instead of employees deciding to join a scheme, employers will soon have to automatically enrol them into the pension, unless employees actively decide not to join.

This is likely to bring about an increase in scheme membership and therefore an additional cost to the employer. For those employers who do not offer a scheme or are deemed to not be offering a scheme of sufficient quality, a central scheme is planned called the National Employment Savings Trust (NEST), though it is proving controversial and expensive and is being reviewed.

Whatever happens, the plan is that when auto-enrolment and NEST are fully up and running, employees will be putting in 4% of salary, employers a minimum of 3% and the Government 1%. Details are still being thrashed out, for example, the Institute of Directors has recently called for employers with



five or less employees to be excused from the scheme and for a delay of three months before new employees join.

The timetable envisages the largest employers with more than 120,000 employees starting auto-enrolment by October 1, 2012 before it is rolled out progressively to other firms. Small start ups post 2012 are excused till 2016. The minimum employer contribution starts at 1%, rises to 2% in October 2016, and to the full 3% by October 2017.

Some details are still unclear; however future calculations about any company pension arrangement will have to change. Some employers may welcome the fact staff are now more likely to join their pension. Some may see it purely in cost terms. They may wish to reduce their contributions to the Government's minimum. However, it would make sense to start taking auto-enrolment into account in overall business planning for the next five years.

CPI = Cut Pensions Imminently?



For civil servants and those in defined benefit (also sometimes known as career average or final salary pension schemes), the Coalition Government has proposed a controversial change where it may allow your pension scheme to calculate your pension payouts at a lower rate of inflation than previously.

The Government has suggested schemes may be able to increase the pension paid

out by the Consumer Price Index rather than the Retail Price Index from 2011. The CPI does include property prices and so tends to increase more slowly than the RPI, though of course that is not guaranteed.

There is a lot of devil in the detail. Experts believe for example that if it is in your contract that your pension will increase with RPI not CPI then it can't be changed whatever the Government says. If the change does come in, it could erode the value of a pension substantially after 10 or 20 years of retirement.

As always, if you are worried, then you should **contact us** – one solution may be to establish additional sources of income.

“Do you need advice about your Pension options?”

Call us today to arrange a consultation.

Capital groans but it could have been worse!

Work longer if you want to – but you may have to!

In more general terms, the age at which people retire is increasingly under scrutiny. First of all the Government has announced plans to phase out the default retirement age of 65 and is consulting on this – though the change is proving controversial particularly with employers.

The second big change is a plan to change the state retirement age at which you will be able to receive the state pension. This has proved particularly controversial with trade unions.

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At one stage it looked as if the 18% rate of Capital Gains Tax (CGT) could increase to near the top rate of tax at 40 or even 50% given that it was one of the Liberal Democrat's policies to do so and increasing CGT was mentioned in the coalition agreement.

There was also talk that the annual exemption could be reduced dramatically, catching out tens of thousands of savers including pensioners while requiring lots of complicated tax return calculations. However, the Chancellor George Osborne opted for a middle way.

The tax has increased significantly from 18% to 28% but not to anything like 40% and the allowance of £10,100 has been preserved.

He also lifted the 10% tax rate known as entrepreneur's relief allowance – effectively a lower rate for those who have set up businesses from £2m to £5m. However the Chancellor did not introduce any form of taper relief i.e. reducing the tax depending on how long an asset had been held.

It is possible some of you may have chosen to sell shares or property or even a business between Election Day and budget day but you are probably in a minority. There were

a few headline hitting deals done in the City with a flurry of assets being disposed of or moved into complicated trust arrangements. If you have a large amount of cash on deposit as a result, it may be worth contacting us to see how we can manage this efficiently.

What the change means for regular investors is that they can continue to tax shelter a substantial amount of their savings outside of a pension each year. First there is the annual Isa allowance set at £10,200 this year but now connected to inflation. Then on top of this comes the CGT allowance of £10,100 allowing further investment or at least substantial gains in a portfolio before tax is attracted. Remember also that for couples, this actually means £20,400 in an Isa and £20,200 CGT exemption before tax is incurred. Those with large pots of money outside the Isa regime may wish to examine their tax position carefully to see how they might wish to try and mitigate CGT perhaps by rolling it up with offshore trusts though of course any tax must eventually be paid.

The big increase in entrepreneur's relief means that most small and medium businesses benefit from a pretty generous 10% rate. Buy-to-let investors may wish to consider their strategy going forward. They still retain the tax relief that allows them to offset mortgage interest against income tax on rent but will now have to consider how to factor the increased tax rate into any property divestment decisions and whether they should consider developing other strategies as a result.

As with all of these tax changes, the Government seems to be aiming to generate revenue but also make the system less complex. Hopefully it will succeed, in which case CGT may remain stable for a few years but as ever there are no guarantees.

With annuity freedom come responsibilities

There has arguably never been more need for advice surrounding planning for retirement with all sorts of change in the air.

The rules which used to say you had to take an annuity at age 75 have now been moved to 77 until a more permanent change is introduced.

For those who believe they may now be able to delay annuitising, you should also be aware that some pension companies are saying they cannot change their systems for this year and you may need to check that the date can be extended with your provider.

The Government is now consulting on replacing this annuity requirement with capped drawdown, allowing limited annual withdrawals from age 55 for the whole of retirement or flexible drawdown allowing unlimited sums to be withdrawn provided a minimum income requirement is not breached.

Both effectively give you a spread of investments aimed at providing you with an income but that could see your capital sum benefiting from investment performance too. Many investors take these plans out in their fifties or sixties though going past 75 is expected to be rare.

As a result, the Government is also abolishing the alternatively secured pension regime, where you could have avoided annuitising, but only at the cost of very punitive taxation on the amount left on your death which could reach as high as 82%.

There are several things to note.

- The Government has not yet set the minimum resources you need or even what assets you can use to prove you will not fall back on benefits. That level is still to be decided and one way may ironically involve annuitising at least part of your pension pot anyway.

- Second, the Government has effectively reduced taxes on any pension sums left over if you die from 75 to 55% for those aged above 75 but is also thought to be planning an increase on the amount from 35 to 55% for those dying before 75.
- In addition, though drawdown is a very good option for those with significant sums of money pre-75, for those approaching 75 and beyond, there remain several good reasons to consider taking an annuity even if the Government no longer forces you to do so. For example the older you get, the more time your funds have to perform, to deliver a better result than the certainty of an annuity because of the mortality cross subsidy. The case for annuitising may be strengthened if you or your spouse is suffering from ill-health because you can get an enhanced annuity rate. All of these options require careful consideration and you should talk to an adviser before making any decision.

All the proposed options are complicated but they have significant financial planning implications. One lesson to take to heart is to make sure that when you retire and your pension company offers you an annuity rate make sure that you look at other options too. There is a huge range of annuities and alternative plans, with different rates, covering different time periods, different guaranteed sums, or that look after your spouse better in the event of your death. At the very least, you should consider annuities that protect against inflation or give you more money if you are unwell. Fixing into the first annuity you are offered for the rest of your life is quite likely to be the wrong thing to do. The annuity consultation is ongoing so [contact us](#) – we can help you make the right decision.



'Work longer if you want to...' continued

A rise in the pension age to 66 is planned for 2026 but could happen by 2016 for men and 2020 for women. There are also plans to increase the state retirement age to 67 by 2036 and to 68 by 2046 – but once again the Government is seriously considering accelerating this process.

To see whether any of this will impact on your financial planning, please [contact us](#) as this debate, like most of the others concerning pensions, will be ongoing at least for the next year and beyond.

Last minute pension turbo-charging on the way out

“Do you have a lump sum to invest? We can help”

Call us today to arrange a consultation.

Each issue we aim to cover topical issues and whilst not all of these will be of interest to every client we do hope you find something useful and beneficial. Our newsletter is for general information and is not intended to be advice for any specific person. You are recommended to seek professional advice before taking any action on the basis of the contents of this publication. The newsletter represents our understanding of the law and HM Revenue and Customs practice as at September 2010.



For a long time, many well off people or their employers have chosen to increase their pension contributions dramatically as their retirement approached. Anyone hoping to do this may now need to be aware that they may need to adapt this strategy as the Government looks set to restrict the amount that can be invested in a pension and still receive tax reliefs.

The annual allowance, the amount by which you and your employer can contribute each year and receive tax relief on your contributions looks set to reduce. The Chancellor suggested the Government was attracted to setting this at £35,000 and £45,000 in his recent emergency budget, but a subsequent Treasury consultation suggests £30,000 and £45,000 a year from April next year. Insurer Aviva is predicting £35,000 as the final figure. This is well down from a much more substantial £255,000 for 2010-2011. Anything above the allowance currently attracts tax at 40% though this amount is also up for consultation.

The Government may also cut the lifetime allowance, the maximum amount of pension savings that can attract relief in your lifetime from £1.8m to £1.5m. Final details are expected to be decided soon.

The previous Labour Government had put in place rules due to come in from April 2011 to restrict pension tax relief for high paid individuals – which kicked in at between £130,000 to £150,000 a year depending on complicated calculations. This system was expected to prove incredibly complicated to administer, hence the new proposals.

Obviously this change will not impact on a huge number of investors, however, some people could easily hit a reduced limit of say £35,000 after April next year, particularly where they might be transferring other assets into a pension or putting significant sums from their business into a pension arrangement as their retirement approaches. It will also have a big impact if you are a high earner lucky enough to be in a defined benefit scheme.

Of course, investing in a pension has always represented a trade off. There are huge benefits to contributing regularly throughout a working career as those early contributions benefit from compound growth. However many people have been reluctant to tie up huge amounts in a pension until they were closer to their retirement date. If you have worries about the new restrictions [contact us](#) and we'll help you determine the best solution for your circumstances.