

moneywatch

ISAs

Spring 2011 • Issue 1

Now you can shelter more from the taxman

ISA limit increasing in line with inflation

The ISA limit is increasing to a maximum £10,680 from 6th April 2011, the highest in the saving scheme's history and an extra £480 compared with the 2010/11 tax year. The move means the Chancellor has kept his promise, made in his last Budget, to increase the upper limit on the ISA in line with inflation.

If you haven't taken up this tax year's ISA entitlement, you are allowed to save and invest up to a maximum of £10,200. This was already a substantial boost of several thousand pounds on the year before, when the overall limit was £7,200.

This means that you can invest the whole £10,200 amount in a stocks and

sheltering - and half in a stocks and shares ISA.

This means that this year you can put £5,100 in a cash ISA and £5,100 in a stocks and shares ISA and then from 5th April 2011 you can put up to £5,340 into each.

continued on page 2



“ ISAs are proving to be a rare example of generosity from the Government, probably because it has decided it needs to encourage everyone to save more ”

Actually, ISAs are proving to be a rare example of generosity from the Government, probably because it has decided it needs to encourage everyone to save more, good news if you already have the savings and investing habit.

shares ISA, which allows you to invest in most types of mutual funds and unit trusts, and assets such as equities, bonds and property. Or you can split the allowance and put half in a cash ISA – much like a bank savings account though with tax

Spring 2011

- 01 **ISAs** - Now you can shelter more from the taxman
- 02 **ISAs** - Coming soon for children - the Junior ISA
- 03 **Advice Guide** Independent financial advice - the gold standard
- 04 **General Advice** Spring clean your finances
Market Update The euro crisis and your investments
- 05 **Pensions** The amount you can put in a pension is being cut
- 06 **Income Protection** Safeguarding against unemployment
- 07 **Retirement Planning** Don't take a retirement payout. Shop around for an annuity
- 08 **Economic Update** Inflation - Real Rate



If you prefer regular savings plans, then from April 2011 the new limit translates to £890 a month into a stocks and shares ISA or again, if you divided it you could put £445 a month into both a cash ISA

and a stocks and shares ISA. All these changes mean that the ISA can play an increasingly significant part in your saving, investing and retirement plans. Once you have invested

money in an ISA, you do not pay any personal tax on it, so any interest payments or dividends you receive are tax free. So is any growth in your capital.

Over time, it can allow you to develop a wide and diversified portfolio of investments which can be put to all sorts of uses, whether helping younger relatives with a deposit for a house, paying off your own house, paying you an income or perhaps eventually converting your ISA savings into a pension income.

However it is important that you fit your ISA decisions into a consideration of your

broader circumstances. Even if you are not quite sure why you might need the money in future, providing your adviser with an idea of your thinking and your tolerance to risk can help him or her help you decide how much to invest and where to invest.

It may also help with fund selection – you may for example decide you wish to take more risk with your ISA investments than with your pension or you may wish to coordinate your strategy across all your investments. In addition, it is important to select the right sort of funds. Even in the case of cash ISAs, banks and

building societies are sometimes accused of paying high introductory rates or bonuses to attract money which then fall quite dramatically in subsequent years.

You should remember that you can always transfer your money to another provider, bank or building society and retain all the benefits of the ISA's tax sheltering.

So when you are deciding on this year's ISA, you might also take a look at your current holdings to see if you want to change anything. Your adviser is always ready to help with advice on this.

Advice Guide

Independent financial advice - the gold standard

Why independent financial advice is still the way to go

There are many different types of financial adviser, known as "tied", "multi-tied" and "independent" advisers. However, we believe that independent financial advice remains the gold standard best suited to your needs, which is why all our advisers are independent.

You can seek the help of a "tied" adviser, who sells the products of one firm, or a "multi-tied" adviser, who has business arrangements with just a few firms from which he or she may select products for you. Many bank advice services are constructed in this way, though there are also several big advice groups that also structure their businesses and their recommendations around these tie ups.

Our advisers select from across the whole market in financial services, whether from fund managers, pension companies, insurance companies or mortgage lenders. This allows us to obtain the most competitive prices and the most appropriate products with the

features that we think best suit your needs.

We give you different options for paying for that advice, either by paying a fee to your adviser or we can be paid from the commission received on the product by the provider. This system will change in a few years time to something called "adviser charging" which is designed to ensure there is no real or perceived bias towards how advisers are remunerated.

Providers will no longer pay commission but you and your adviser can



examined to demonstrate this is the case.

As part of the changes, "multi-tied" advisers will be given a new designation as 'restricted advisers'. Just like the current "multi-tied" adviser, these advisers can link to a few companies and will not select from the whole market. We believe that independence remains

“ You can seek the help of a “tied” adviser who sells the products of one firm or a “multi-tied” adviser who has business arrangements with just a few firms ”

negotiate on the level of payment, which may then be taken out of the product charges. We will keep you informed when the new payment method comes into effect.

In addition, all our advisers are currently increasing their level of qualifications as part of moves by the Financial Services Authority to boost the standards of advice in the UK. This means our advisers are making sure there are no gaps in their knowledge and they are being assessed and

Points to remember

- Independent is the gold standard
- An IFA must select from all providers in the market Not tied to one firm or "multi-tied" i.e linked to a few firms Commission system being replaced with adviser charging

ISAs

Coming soon for children - the Junior ISA



ISA has yet to be decided but the sort of amounts being suggested are the £3,600 you can put in a stakeholder pension or the £5,100 you can currently put in a cash ISA. You

“ We don't have all the information yet, but the new JISA is intended to replace the Child Trust Fund which is currently being phased out ”

will be able to invest in stocks and shares or cash and all children born after December 31 2010 are eligible.

The Treasury is still consulting on whether you can continue to contribute

into a Child Trust Fund as well as a Junior ISA. Currently, parents of children who already have the Child Trust Fund will be able to continue to contribute £1,200 a year.

There will be no more Government funding though.

With the Junior ISA, the tax position should be advantageous. Currently with saving for children, you can shield a lot of the

money by filling in an R85 form but interest above £100 a year is then taxed at the child's parents' income tax rate. The Junior ISA is expected to be an easy way to stop this happening. Banks, building societies and fund managers are keen to offer accounts and funds. With the money not being accessible until a child is at least 16 or even 18, there is certainly some merit in considering a long term stock market investment. It may particularly appeal to grandparents who want to find an efficient way to help with their grandchildren's

education particularly with university costs rocketing.

But as ever it is best to talk to your adviser before you make a decision. We will keep you informed as soon as we know more details.

Points to remember

- Junior ISA to be launched this Autumn
- Amount to be decided but should be several thousand
- Replaces child trust fund which is being phased out

Spring clean your finances



Have your own circumstances changed or those of your family? Is your investment strategy still on target to deliver your goals or have those goals changed? Is your pension on target to meet your income needs in retirement? Will you be able to afford that yacht or that cruise? Are there any new regulations or taxes that you should be aware of before you take any big financial decisions in the next year or two? Might it be a good idea to increase your insurance on your income or your home?

You have done your financial planning. You've got your pension and arranged this year's ISA, you've bought your house, or most of it, so by and large you've got your finances in shape. Take a minute to congratulate yourself for having ticked all those boxes. It is certainly more than many people can say they've managed. But then have another think about it. First of all we've got a new Government and they are changing lots of the rules on tax, on spending, even on the date when you can retire. You might want to try and help your child or grandchild cope with the increasing costs of university.

Actually, even if we weren't seeing all these changes, we think it doesn't hurt if you give your finances a bit of a financial sense check every now and then.

So we think, it might just be a good time to have a thorough spring clean to look for any cobwebs that might have gathered over the winter. Another way to put it is that just like an occasional visit to the doctor, a financial health check up can do you the power of good too. It certainly can't do any harm.

If you have any concerns or simply think it might be time to make sure you are on course for your goals, then please get in touch with your IFA.

The euro crisis and your investments

How to shelter yourself should the worst happen

Fund managers are increasingly concerned that the Euro may collapse but the big question for you is what might this do to your portfolio, the asset classes you are invested in and how can you protect yourself.

Although the UK is not in the Euro, there would be huge implications for the UK. The Euro countries are

“Your attitude as an investor looking at this situation will of course depend on your attitude to risk”

hugely significant trading partners and in the case of Ireland, some of our taxpayer owned banks have a big exposure to Irish banks. Though it may rankle with people in the UK, that is certainly one reason why the Chancellor George Osborne has been so willing to make a bilateral loan to Ireland.

Newton Investment Management's head of fixed income, Paul Brain, still believes that the Euro is unlikely to break up, but he says it is a stronger

possibility than previously. Writing in Investment Week in December, he said: “Higher borrowing costs and uncertainty about the security of borrowing, accompanied by the simultaneous withdrawal of cheap liquidity, is bringing the Euro to a crisis that may be greater than the previous one of May.”

Smith and Williamson European Growth Trust

manager, Mark Pignatelli, also talking to Investment Week, believes there is now a 50 per cent chance of break up in the next six to 12 months. He thinks Ireland, Greece, and Portugal at least, possibly Spain and Italy also, will form a weaker currency block with a stronger currency for a new core of countries.

He believes the two currencies will diverge easily by 40 per cent in the early weeks of any break up and this gives all sorts



of different opportunities. For example, he believes domestic firms in the hard currency area will do well but exporters will obviously face challenges, while firms in the softer currency zone are best avoided now because of the threat of a huge depreciation.

Your attitude as an investor looking at this situation will of course depend on your attitude to risk.

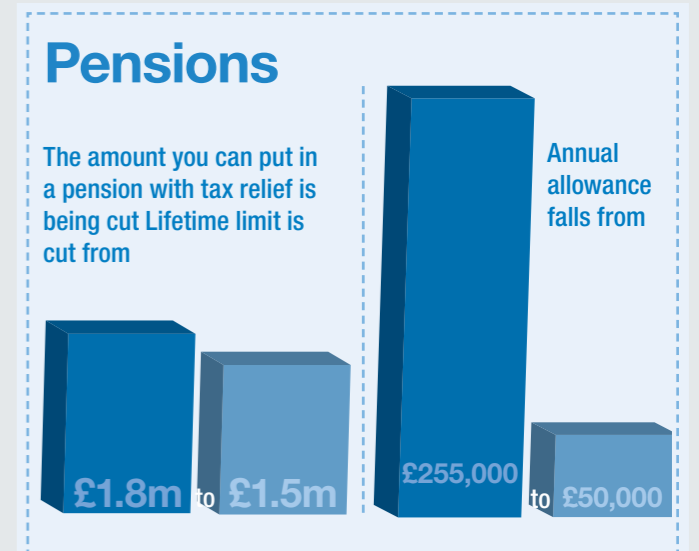
However, for the majority of investors with portfolios designed for the long term, it may simply be best to check that you are diversified, on course to meet long term goals, and to consider whether you want to make any tactical adjustments that might make sense to keep your portfolio out of risky or volatile assets. The idea is not to second guess the big political events, but to make sure your portfolio can withstand these shocks while still making you returns. If you have any concerns about your exposure to a particular asset, or simply want to check you are on course, please contact one of our IFAs.

The amount you can put in a pension is being cut

It may not affect huge numbers of people but the Government has dramatically cut back the amount you can save in a pension without facing significant tax charges.

The annual allowance, i.e. what you can invest in a pension and qualify for tax relief, has been cut from £255,000 to £50,000 from 6th April 2011. The total amount you can accumulate in a pension over a lifetime is being cut from £1.8m to £1.5m from April 2012.

The changes are expected to have implications for as many as 100,000 people. The allowance calculation is relatively straight forward for those in defined contribution schemes. It is more complicated for defined benefit pension schemes. Currently in defined benefit schemes an increase in a member's benefits over a year is multiplied by a factor of 10 to determine the deemed contribution but from April 2011 this will increase to a factor of 16, which makes it more likely you could break the allowance limits. If you are concerned you should seek advice.



The changes may apply to high earners, business directors or to those who were planning to take a large pension contribution as part of a redundancy payout.

Anyone who believes they fit into these groups should seek advice on how to maximise their pension without incurring tax charges.

For some people, it may make sense to maximise this year's contributions or for others to take advantage of new three year carry forward rules, applying before you retire.

Those who had been planning to put a lot of money into a pension in the final years before their retirement might consider changing their strategy to one of regular contributions.

Existing rights from A-day have been preserved and there may be a new system of protection for those who have already targeted benefits of between £1.5m and £1.8m but we await details.

In addition, under pension simplification, different pension input periods may apply that could also affect your tax position. Finally, in a few cases it may have implications for your investment strategy, if you are nearing the lifetime allowance you might adopt a strategy that sacrifices some returns but protects against big falls.

All of these issues are very complicated and specific to individuals so it is essential you seek advice if you think you may be affected.

Safeguarding against unemployment

Are you prepared for being out of work?

There are two approaches to safeguarding yourself against the financial impact of unemployment. The first is to make sure you have enough savings to rely on, the second is to insure yourself. A combination of the two is probably best.

Financial advisers tend to advise people to have a least three months worth of savings to meet expenses in the event of unemployment. However for many in Britain the actual amount they can access is a lot less.

A survey by ING Direct shows that last autumn, Britons had an average £1,771 cash reserve, which had actually fallen by £279 over the summer as the recession saw people dip into their savings.

It is also worth considering the fact that it is your monthly expenses you should focus on, especially when it includes your rent or mortgage. If you have a lot of outgoings, and with concerns about all sorts of rising costs, most obviously fuel bills, it may be a useful exercise to have a long hard look at exactly what you are spending.

You would also do well to note that most advisers would suggest that three months is a bare minimum and that the average time it takes people to get back into work after losing a job is six months. Finally, your emergency fund shouldn't be invested in assets that can fall in value nor in anything other than an account that you can access quickly.

However, if you really want security, the best thing to do is to take out insurance.

There are different types of cover all of which do different things and cover different eventualities or periods of time.

Accident, Sickness and Unemployment cover or payment protection insurance will pay out a sum of money to help cover your monthly repayments on mortgages, loans and other expenses.

Most Accident, Sickness and Unemployment policies should cover you for up to two years, which should be enough time to find work. Policies vary when they pay out – some from day one of any employment, some only after 90 days which affects the premiums. However, if you are under a definite threat of redundancy,

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insurers will not take you on risk.

Mortgage payment protection insurance is similar to ASU/PPI and covers your mortgage payments in the event of you being unable to work once again due to an accident, sickness or unemployment.

With these types of insurance, you may simply want the unemployment cover for your mortgage if you already have accident and sickness insurance through an employer's policy, for example.

Income protection insurance or permanent health insurance can pay out a tax-free income after the statutory sick pay period has ended. If you are unable to work for a long period of time because of illness or disability, this type of cover can

be useful as it will continue to pay out until you can return to some kind of paid work or reach retirement, whichever is sooner.

It is usually written to cover you until you are 65.

It has a waiting period - known as the “deferred period” - before it will start to pay out. The longer you agree you'll wait, the lower your premiums will be.

Your income protection or PHI policy may cover you for redundancy already or you may have the option of adding unemployment cover to an existing policy which shouldn't cost much more than £20 a month extra.

Different types of policies may or may not include life insurance while you may also wish to consider critical illness cover, which pays out if you get certain illnesses but does not cover redundancy.

We suggest you are best to seek help from an adviser before taking out any sort of cover because it is the best way to assess any cover you may have already and what extra cover you might need.

If you have any concerns about how much cover you have or need, or indeed about how much to have in an emergency fund, please contact your adviser.



Points to remember

- Make sure you have at least three months spending money readily available You can insure against redundancy - check you have the right cover You may have some cover in your existing plans.

Don't take a retirement payout. Shop around for an annuity



One of the most important issues facing anyone approaching retirement is deciding how to turn their pension investments and savings into a retirement income.

For those in many final salary schemes including a lot of public sector pensions, you may get a pension income linked to the years you have spent in work and your salary over that time.

But if you have a pension known as a defined contribution pension which includes some pensions provided by employers, personal and stakeholder pensions, then you will be faced with decisions that are hugely important in terms of the income you get in retirement.

The vast majority of people in the UK take out an annuity, usually when they retire around the age of 65. Unfortunately, a large number of these people fail to maximise that income. In fact, some make decisions

that can reduce their income in retirement by five, ten or even twenty per cent, in the most extreme cases it can be as high as 40 per cent, underlining just what a hugely important decision this is.

One way to consider the issue is to think whether in your working life, you would be happy to accept a pay cut of this size from your employer.

Therefore, we would urge you to make sure this doesn't happen to you by using something known as the “Open Market Option” when deciding how to take that income rather than simply accepting the

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‘default’ annuity offered to you by your pension provider.

At the root of the problem is the fact that many people don't distinguish between the firm they save for their pension with and the firm they take their pensions income with. But nothing in rules says this has to be from the same company.

Six months before you retire, your pension provider should write to you with

what is known as a wake up call letter informing you of the options in your retirement. Then six months later, the firm will notify you again and offer you an annuity. If you don't take positive action at this time, you may well be rolled into the firm's default annuity. This may be ok if your provider offers a generous rate but not all do, and what is on offer may not be best for you in any case.

For example, you may have a health condition, even a minor one, which could mean another firm would offer you a better income through something known as an enhanced

annuity. You may wish to make sure your retirement income is proofed against inflation. You may wish to organise your annuity so that your spouse benefits by the maximum amount in the event of your death.

If you have a reasonably large pot of money, you may also wish to consider income drawdown, where you keep your money invested and take an income from that pot.

Points to remember

- Shop around before accepting an annuity from your provider.
- Your income for the whole of your retirement can vary massively as a result of this decision.
- There are a host of options available in retirement. Please seek advice.

You may even wish to combine taking an annuity with investing some of your money or buying a new type of product that pays income for perhaps ten years and that can guarantee some of your capital. Finally you may have pension savings in several places and this may require a lot of planning.

When you are near retirement and are offered an annuity by your provider, please get in touch with your IFA and he or she will take a look at your particular situation and help you to shop around to make sure you get the best deal or, if your needs are more complex, find you the right solution. After all, the decisions you make about this can affect your prosperity for the rest of your life.

Inflation – Real Rate

Factors affecting your own personal rate of inflation

The Government says there are two rates of inflation, but in reality there are probably as many rates as there are people in the UK. It may be best to calculate your own rate or the rate for your household, although the official rates, the Consumer Price Index (CPI) and the Retail Price Index (RPI), will obviously still be of some significance.

CPI and RPI calculate the price rises of a basket of goods and services over 12 months, though CPI excludes housing costs and council tax. In general, RPI runs at a higher rate as a result, though CPI is increasingly used by Government to calculate tax credits, benefits and state pensions. CPI is also used for the Bank of England's inflation target of 2 per cent though the Bank has been pretty consistent in missing it in the last three years or so and doesn't look likely to break the habit anytime soon. The Bank gives the fragile state of the economy as the reason for keeping interest rates at 0.5 per cent.

Some worry that the Bank is storing up even more inflation at a later date, while savers relying on interest-paying bank accounts believe they are being unfairly penalised by inflation now. You can understand their frustration.

CPI was 3.3 per cent in November 2010, when the last figures were issued, while RPI stood at 4.7 per cent. This situation is not going to be helped by January's 2.5 per cent VAT rise to 20 per cent.

However, neither CPI nor RPI may represent your real rate.

First consider whether you have really bought the sort of goods that the Government statisticians believe is in the average shopping basket.

The 2010 list saw several new editions. For example, it included garlic bread but junked pita bread. It introduced Blue-Ray disc players, allergy tablets, and electric hair straighteners though it dropped the price of hiring a squash court.

But what if you aren't a garlic eating, blockbuster film fan, who dislikes having curly hair and breaks out in a rash if you eat the wrong thing - apart from garlic of course? What if you still play squash and eat pita bread with everything? What is your rate?

In fact, looking around, everything seems to be moving at a higher run rate anyway.

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If you rely on the train to get to work the average fair rise is 5.8 per cent. The tube and bus fares in London are up 6.8 per cent while some prices for Kent commuters have rocketed - unlike the trains most days - by 13 per cent. Some season tickets are now above five grand.

The cost of petrol has also gone up, due to an increase in fuel duty and VAT, with another rise due in April. For those reliant on their cars or vans, it reads like a triple whammy.

When it comes to heating oil, things are much worse. Prices have increased

by around 40 per cent while the Office of Fair Trading is investigating why oil is 50p a litre in some UK regions



and two quid in others. Of course, it only directly impacts about 1.5m people, but if you are one of them with an otherwise fixed income it is going to hurt your pocket substantially more than CPI's 3.3 per cent.

Indeed all energy costs have risen, which is one reason why many campaigners argue that retired people often face a higher inflation rate than others. The energy firms are also accused with some justification of instantly passing on rises in the wholesale price of fuel, but of keeping prices high long after wholesale price falls back.

If you look at housing costs, which CPI handily misses out, it may well depend on where you live and how you pay for it. House prices, according to Nationwide, were pretty flat in 2010, although as ever this varies regionally. First time buyers face much higher mortgage rates, rents in the private sector are rising, though if you have a substantial deposit available you could still get a competitive mortgage deal.

If you plan to be a student or help a student financially, that degree is going to cost a lot more in the future - in some cases up to three times as much as currently. Given the long payback period, this might be best described as slow motion inflation.

All of this underlines the need to not just to look at the Government's rates of inflation, but to check what's in your 'shopping basket' this January. Unfortunately, it may leave a lot of us a bit light on spare change.