Fidelius
Wealth Management

talking money

SEPTEMBER/OCTOBER 2013

SURVIVING INVESTMENT VOLATILITY

RESISTING THE TEMPTATION TO MAKE SHORT-TERM ADJUSTMENTS

BUILDING NEW UNTOUCHED PENSION SAVINGS

AN OPPORTUNITY TO POTENTIALLY IMPROVE TAX-EFFICIENCY

BAND OF GOLD

ARE YOU BENEFITING FINANCIALLY FROM YOUR MARITAL STATUS?

REAL HELP WHEN YOU NEED IT MOST

A VERY DIFFICULT TIME FOR YOUR HEALTH AND YOUR WEALTH

NEW OFFSHORE HORIZONS

TAKE YOUR MONEY WHEN IT SUITS YOU

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Financial planning is our business.

We’re passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we’ll provide you with a complete financial wealth check.

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IN THIS **ISSUE**

Welcome to the latest issue of our magazine crammed full of articles about how we can help you grow and protect your wealth.

Some investors may have had a roller-coaster ride in recent years. A market fall can happen at any time. In years past, they've been triggered by natural disasters, oil price spikes, wars, bank collapses – and now there's the eurozone debt crisis. The reality is that market swings happen often, and when they do, it can be unsettling for many investors. On page 08 we look at how you can reduce the peaks and troughs of investing.

The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. On page 14 we look at how critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

On page 12 we also examine why tying the knot can bring financial advantages to the relationship. Tax and pensions are probably the least romantic reasons for getting married, but we consider four ways to benefit from your marital status.

A full list of all the articles featured in this edition appears opposite.

WE HOPE YOU ENJOY READING THE MAGAZINE. TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

NEW OFFSHORE HORIZONS

Take your money when it suits you

Finding the right offshore investments can be a key factor in making the most of your wealth, and it's not only for the wealthiest of investors. With a few well-advised decisions you could broaden your investment portfolio.

Offshore bonds provide an opportunity for your assets to grow in a tax-free environment. They also allow you to choose when any tax liability becomes payable. There are a number of other tax benefits with offshore bonds, especially if you have spent time living abroad. But they are complex structures that require professional financial advice.

While many investors will be aware that investing in an Individual Savings Account (ISA) or pension can help reduce their tax bill, you may be less familiar with offshore bonds. Like pensions and ISAs, offshore bonds are effectively 'wrappers' into which you place your investments, for example, funds or cash. They are offered by life insurance companies which operate from international finance centres.

The main tax benefit of investing in an offshore bond is gross roll-up. This means that any underlying investment gains are not subject to tax at source – apart from an element of withholding tax. With an onshore bond, life fund tax is payable on income or gains made by the underlying investment.

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AS LONG AS INVESTMENTS ARE HELD WITHIN THE OFFSHORE BOND WRAPPER, YOU DON'T PAY ANY INCOME TAX OR CAPITAL GAINS TAX ON THEM.

This means your offshore investment has the potential to grow faster than one in a taxed fund.

As long as investments are held within the offshore bond wrapper, you don't pay any income tax or capital gains tax on them and you can switch between different funds tax-free. While you do have to pay tax on any gains when you withdraw assets, there are a number of ways you can potentially reduce the amount you pay.

You can withdraw up to 5 per cent of your initial investment every year for 20 years, and defer paying tax until a later date. If you are a higher-rate taxpayer now but expect to become a basic-rate taxpayer when you retire, you can defer cashing in your assets until retirement and possibly pay half the tax due on any gain realised.

You can assign (transfer ownership) an offshore bond – or parts of it – as a gift without the recipient incurring any income or capital gains tax, although this may cause an Inheritance Tax (IHT) liability if you were to die within seven years. All future tax on withdrawals will be charged at the new owner's tax rate, if any. This can be a tax-efficient way to help fund your children's university fees, for example, since your children are likely to be low or non-earners as students.

Putting an offshore bond in a trust could help your family reduce or avoid IHT, provided you live for seven years after setting it up. ■

SEEK PROFESSIONAL ADVICE

For more information on investing with us, or to discuss your requirements, please contact us.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

POCKET MONEY PENSIONERS

Almost two million retirees have less disposable income than an 11-year-old child

"Look after the pennies and the pounds look after themselves" is an age-old saying dispensed to children as they learn the basics of money. However, adults may want to take heed of their own wise words before they reach retirement, as almost two million retirees currently have less disposable income than a child.

The annual State of Retirement Report from retirement specialist LV= shows 1.9 million (15 per cent) retired Britons currently bring in a combined state and private pension income of £154 or less per week. After deducting average weekly essential living costs of £146.90, these retirees are left with less cash in their hands than an 11-year-old child, who currently on average enjoy a weekly pocket money allowance of almost £8.

MONEY-SAVING TECHNIQUES

Nearly two thirds (61 per cent) of all retirees surveyed by LV= admitted their financial situation is so spartan they resort to a repertoire of money-saving techniques to make ends meet. This includes collecting food vouchers to boost the weekly budget (49 per cent), entering competitions (41 per cent), and applying for free samples of food and sundries (29 per cent).

However, many current retirees will be better off than the estimated 2.3 million over-50s (27 per cent) heading towards retirement with nothing saved and only the basic state pension to rely on. Even with the introduction of a new higher flat-rate pension of £144 per week in 2016, millions of men and women may have no disposable income to speak of and will struggle to cover just their basic weekly living costs. This lack of savings is despite this group saying on average they wouldn't be able to live on less than £214 per week in pure discretionary income when they retire.

LOW LEVELS OF DISPOSABLE INCOME

According to the LV= report, even those who are saving for retirement could leave themselves with low levels of disposable income due to drastically cutting their contributions. In the last 12 months, £2.3 billion has been 'lost' in retirement savings, with 12 per cent of over-50s not yet retired having cutback their long-term savings by an average of £191.36 per month, or £2,296 per year.

DIFFERENT PENSION POTS

For those over-50s who are within five years of retirement, 77 per cent have private pension savings. However, with people now being unlikely to stay with one employer for most of their career, 46 per cent of this group have their savings split between two or more different pension pots. At a point when they should be in their final stages of retirement planning a fifth (19 per cent) have no idea how much is saved in their pensions, and a further 60 per cent only have a fair or rough idea.

CHANGING RETIREMENT PLANS

All of this only matters of course if over-50s can leave the workplace and retire. Unfortunately, almost one third (31 per cent) admitted that financial pressures have forced them to change their retirement plans in the last 12 months, and now expect to retire later in life. Over a quarter (28 per cent) of working over-50s cannot pinpoint an age when they will retire, while 22 per cent have accepted they will work past state retirement age through necessity.

However, it isn't all doom and gloom, as more than a quarter (27 per cent) of over-50s not yet retired say they would continue working past state retirement age through choice, because they enjoy it. ■

CAN WE HELP YOU?

For further information about how we can help you plan for a comfortable retirement, please contact us today – don't delay.

All figures in this release are taken from the State of Retirement Report, produced by Opinium's Desk Research unit and the survey team. The survey research was carried out with a custom sample of 1,541 British adults aged over 50 between 13–20 May 2013 by Opinium Research on behalf of LV=. Of this sample, 835 adults (54 per cent) are currently classed as 'retired'.

WHY PENSIONERS ARE DOWNSIZING **TO MAKE LIFE EASIER**

One in four retired homeowners hope to raise £62,000 by moving into a smaller home

Nearly three quarters (73 per cent) of the UK's 10.4 million pensioners own their own home, although more than a quarter (26 per cent) expects to sell their property to raise money or simply to make their life easier, according to new research from Prudential.

RELEASING SUBSTANTIAL AMOUNTS

Four in every five (81 per cent) retired homeowners who expect to sell are planning to buy another property. This is equivalent to around one million homes being bought and sold by pensioners, many of whom will release substantial amounts of cash by downsizing.

The majority (73 per cent) of retirees who plan to sell up and buy another property want to move into a smaller and less expensive home. On average, they expect downsizing to raise as much as £62,000.

BOOSTING INCOME IN RETIREMENT

Nearly a quarter (23 per cent) plan to use the money raised to boost their income in retirement, 13 per cent will pay off debts and eight per cent say they'll use the money to help with everyday living costs.

Prudential's research also shows that over one in five (22 per cent) retired homeowners still have an outstanding mortgage, with average monthly payments of £254.

A SIMPLER LIFE

The convenience of running a smaller home was the most commonly stated motivation for those who plan to downsize – 48 per cent say they want a simpler life. Separately, 22 per cent claim raising money is the main driver for their sale, while 11 per cent want to reduce household bills.

Staying on the property ladder remains the overwhelming preference among retired homeowners. Just six per cent of pensioners planning to sell their home intend to move into specialist retirement accommodation, while only four per cent expect to move into a rental property. ■

BUILDING A BIGGER INCOME

For some retired homeowners, moving to a smaller home is a lifestyle choice, but for a significant number the decision is a financial one. The research also shows the financial nous of many pensioners – the majority of retired homeowners expecting to sell their property plan to buy a smaller home rather than rent, saving themselves on average £168 per month on the difference between an average mortgage and rental costs. To discuss how we could help you build a bigger income, please contact us.

All figures in this release are taken from the State of Retirement Report, produced by Opinium's Desk Research unit and the survey team. The survey research was carried out with a custom sample of 1,541 British adults aged over 50 between 13–20 May 2013 by Opinium Research on behalf of LV=. Of this sample, 835 adults (54 per cent) are currently classed as 'retired'.

SURVIVING INVESTMENT VOLATILITY

Resisting the temptation to make short-term adjustments

Some investors may have had a roller-coaster ride in recent years. A market fall can happen at any time. In years past, they’ve been triggered by natural disasters, oil price spikes, wars, bank collapses – and now there’s the eurozone debt crisis. The reality is that market swings happen often, and when they do, it can be unsettling for many investors.

> **“UNDERSTANDABLY, SOME INVESTORS MAY OVERREACT TO SHORT-TERM MARKET VOLATILITY THAT ISN’T USUALLY RELEVANT TO THEIR LONG-TERM GOALS. YOUR TIME HORIZON, GOALS AND TOLERANCE FOR RISK ARE KEY FACTORS IN HELPING TO ENSURE YOU HAVE AN INVESTMENT STRATEGY THAT WORKS FOR YOU.**

Nothing ignites the fear of losing one’s hard-earned money like a short-term market correction. A natural reaction to that fear might be to reduce or eliminate any exposure to the stocks, thinking it will stem further losses and calm your fears. But disciplined investors typically do just the opposite: they try to maintain an appropriate, diversified mix of investments and resist the temptation to make short-term adjustments. The simple truth is that volatility is a fact of investing life and you’re often better served staying in the markets over the long term than pulling out. Here’s why, and how, you can do it.

TOLERANCE FOR RISK

Understandably, some investors may overreact to short-term market volatility that isn’t usually relevant to their long-term goals. Your time horizon, goals and tolerance for risk are key factors in helping to ensure you have an investment strategy that works for you. Your time horizon is the number of years until you will begin to use what you’ve invested. Your tolerance for risk should take into account your broader financial situation such as your savings, income and debt – and how you feel about it all. Looking at the whole picture can help you determine whether your strategy should be aggressive, conservative or somewhere in between.

SET REALISTIC EXPECTATIONS

If you are nervous when the market goes down, you may not be in the right investments. Even if your time horizon is long enough to warrant a more aggressive portfolio, you have to be comfortable with the short-term ups and downs you’ll encounter. If watching your balances fluctuate is too nerve-racking for you, think about re-evaluating your investment mix to find one that feels right. But be wary of being too conservative, especially if you have a long time until you need the money. Set realistic expectations, too. That way it may be easier to stick with your long-term investment strategy.

EXTREME MARKET VOLATILITY

The key to long-term investment success is having a balance to your investments. Having all of your money invested in one asset class can be a very high risk approach. One of the most important things you can do to help protect your portfolio from volatility and down markets is to diversify. While it won’t guarantee that you won’t have losses, it can help limit them. It was put to the test during the extreme market volatility during the global credit crisis in 2008.

CORE ASSET CLASSES

So how do you diversify? First, consider spreading your investments among at least the three core asset classes: stocks, bonds and short-term investments. You may also want to include other assets that are not always closely correlated with the core asset classes. Then, to help offset risk even more, diversify the investments within each asset class. Check where your funds are invested and spread holdings over different sectors and geographical areas. Review the balance of your assets: are you exposed to too much or too little risk? You should also check to see if new asset allocations match your risk profile.

SMOOTH OUT RISK

Attempting to move in and out of the market can be costly, particularly because a significant portion of the market’s gains over time have tended to come in concentrated periods. Many of the best periods to invest in stocks have been those environments that were among the most unnerving. Drip-feeding money into investments at regular intervals can allow investors to smooth out risk through ‘pound-cost averaging’. This requires you to invest in all conditions, thereby helping to avoid the poor decisions that some people may make when trying to second-guess the market. When the market falls, your payment will buy more shares or units in a fund so you’ll have a bigger holding at the point markets recover.

THE RIGHT MIX

Look at the type of investment funds you hold and make sure they are best placed to give you some protection if markets fall, but also to benefit when they rise. Good quality fixed-interest funds are likely to be relatively stable, whereas equity funds can be more volatile, so if appropriate to your particular situation, you could consider holding a combination in the right mix for you. ■

HELPING YOU GROW YOUR WEALTH IS AN IMPORTANT PART OF WHAT WE DO

There are many different ways to grow your wealth. Our skill is in helping you to understand your choices, and then helping you to make the investment decisions that are right for you. That depends on your life priorities, your goals and your attitude to risk. To discuss how we could help you, please contact us for more information.

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

PENSIONER HOUSEHOLD EXPENDITURE

Housing and fuel costs are the largest single expense

The average UK household will cost a total of £1,802,000 (or £29,000 a year) to run over the course of a lifetime, according to new analysis by Prudential in the ONS Family Spending Report [1].

The figures show that household costs fluctuate over time, with annual costs peaking at £45,000 when the head of the household is aged between 30 and 49, reflecting the costs of raising children.

By comparison, pensioner household expenditure drops to £25,000 a year when the head of the household is aged between 65 and 74, and to £17,000 for those aged 75 and above.

DIGGING DEEP

These figures show a gulf of more than £14,000 annually between income and expenditure in the early years of retirement if the householders rely solely on the Basic State Pension. This pays just £10,310 [2] a year currently to the average retired household. To make up the difference, pensioners will have to dig deep into their savings or personal pension plans, unless they simply choose to go without.

A COMFORTABLE RETIREMENT

Saving as much money as possible from early in working life is key to being able to supplement the State Pension and ensure sufficient income to live a comfortable retirement. The analysis shows that the average household spends £230,000 on recreation and £128,000 on hotels over the course of a lifetime, so by tightening their belts a little, people could afford to save more towards retirement.

Although living costs do fall as people reach their twilight years, health costs tend to increase, so the average household costs are nowhere near covered by the State Pension, even in households with two pension incomes.

REDUCING TAX LIABILITY

The Prudential analysis also reveals that the lifetime cost of people's direct taxation (income tax and national insurance contributions) is £385,000 for the average household.

Saving into a pension scheme can also be an excellent way of reducing tax liability as basic-rate taxpayers can claw back 25 pence in income tax relief for every pound they save into a pension, and for high-rate taxpayers this rises to 67 pence in the pound.

INTERESTING INSIGHT

Prudential's analysis reveals that housing is the single largest expense for a typical UK household, with mortgages, rent, repairs, energy and council tax costing on average a total of £508,000 over a lifetime.

The figures also provide an interesting insight into how State provision in the UK shapes the way households spend their money over the course of a lifetime. Services provided by the State in the UK account for some of the least expensive lifetime costs for households, for example, the average UK household spends just £364 a year on education, and £343 on healthcare. The expenditure in these two areas combined stands at only £44,000 over the course of a lifetime. Recreation and culture is the second largest expense (£230,000), a reflection of the relatively high quality of life enjoyed by many people in the UK. ■

[1] All costs based on household expenditure as recorded in the ONS Family Spending Report, for a period of 62.1 years, based on an average UK life expectancy of 80.1, as estimated by the United Nations Department of Social and Economic Affairs. Please note that children's living costs are assumed to be paid by their parents/guardians up to the age of 18, to avoid double counting. All expenditure figures are rounded to the nearest £1,000.

[2] Based on the annual state pension of £5,728 and 1.8 persons in the typical retired household, as recorded in the Family Spending Report.

WE CAN'T CONTROL FATE BUT WE CAN CONTROL OUR FINANCES

Leaving your property and possessions to your loved ones

There are compelling financial and emotional reasons for making a will. But why do so many of us shy away from it?

When it comes to important decisions – particularly financial ones – we tend to put them off, or make excuses: 'there's plenty of time' or 'it's too big a job'.

None of us likes to think about dying, but what happens if you put off making your will? At the very worst, the state could keep everything you own – loved ones get nothing.

When you make a will, everything for which you have worked so hard (including your home) is protected; all your hard-earned assets will go to exactly the people you want to have them. An up-to-date will, therefore, completes the circle of all the financial planning you've undertaken.

MY FAMILY SITUATION IS COMPLICATED, I DON'T KNOW WHERE TO START

This is a common problem, but a complex family situation should be an incentive to make a will. If you're not married but living with someone, your assets will automatically go to blood relatives – not your partner – in the event of your death.

The intestacy rules determine who will benefit from your estate if you die without making a valid will. If you are separated but not divorced, your spouse will still inherit regardless of your intentions. In England and Wales they would be entitled to your personal possessions, the first £250,000 of your estate and would have a life interest in half of anything after that. Children would inherit only if the estate is worth more than £250,000 and any new unmarried partner would get nothing.

If you have no will, two things follow. Firstly, it's much harder for your grieving relatives to get control of your assets; secondly, rigid rules step in to fill the void and decree who gets what. A painful, practical consequence of that is usually a higher tax bill. Unmarried partners are the biggest losers.

I DON'T NEED A WILL, I OWN EVERYTHING JOINTLY WITH MY SPOUSE/REGISTERED CIVIL PARTNER

It's sometimes true that property and investments would go to your spouse or registered civil partner, but what about any personal possessions that you might wish to pass on?

A will also goes further than just dealing with property. It allows you to appoint executors to deal with paperwork, organise funeral arrangements and give to charity.

MY CIRCUMSTANCES ARE CHANGING

You should usually review your will at least every five years and after any major life change such as getting separated, married or divorced, having a child, or moving house. It is best to deal with any major changes by getting a new will drawn up. But it is also possible to make minor changes (codicils) to your existing will.

Wills can be written to cater for things that are about to happen – in contemplation of marriage, for example, or to give everything to children who survive you.

Once you have taken a deep breath and those first few steps in making a will, you can revise it as often as you wish. The hard work has been done. And it is vital to review your will as you get older in any case. Your potential Inheritance Tax liability may change as you accumulate more assets or simply as the value of your house goes up.

I'M TOO YOUNG TO MAKE A WILL

Wills are not just for the elderly. If you have assets, and particularly if you have children under eighteen, you should use your will to dictate to whom those assets go and who should look after your children if you, and anyone else with parental responsibility, die. It's a sad fact that accidents and illness can happen, and while we can't control fate, we can control our finances. ■

NEED HELP?

The unexpected could happen at any time, so it is essential that you obtain professional advice. Don't hesitate to get in touch to discuss your requirements.

> “IF YOU ARE A HIGHER-RATE TAXPAYER AND YOUR SPOUSE OR REGISTERED CIVIL PARTNER IS A LOWER-RATE OR NON-TAXPAYER, YOU HAVE THE OPTION TO TRANSFER THE BOND, OR SEGMENTS OF THE BOND, TO THEM.

BAND OF GOLD

ARE YOU BENEFITING FINANCIALLY FROM YOUR MARITAL STATUS?

Tying the knot does bring financial advantages. Tax and pensions are probably the least romantic reasons for getting married, but there are a number of ways to benefit from your marital status.

Although you can contribute whatever you wish into personal pensions, you can only receive tax relief on contributions up to the amount you earn each year, and subject to a maximum annual allowance of £50,000 (for the 2013/14 tax year). Any contributions exceeding the allowance will be taxed. If you want to contribute more than the annual allowance in a tax year, it's worth considering splitting contributions between your pension and that of your spouse or registered civil partner.

For example, if you wanted to contribute £60,000 and receive tax relief on the whole amount, you could put £50,000 into your pension and £10,000 into your spouse's, with both staying within the annual allowance limit. This is dependent on your partner's earnings being higher than the amount you have paid in. Even if your partner has no income they can receive tax relief on contributions up to £3,600 gross each year. Also, remember that if your spouse is a basic-rate taxpayer, they will only receive tax relief at 20 per cent on the contribution.

INVEST IN INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

Even if you earn a very substantial income, ISAs should not be ignored, since income from them is tax-efficient and you do not incur capital gains tax when you cash them in. This is especially true for couples, who each have their own allowance. This means that, between you, you could potentially invest up to £23,040 into Stocks & Shares ISAs, or split it up and invest up to half of that into Cash ISAs. Investing the maximum year-on-year over, say, a 20-year period would create a considerable tax-free sum.

One problem with ISAs for higher earners is that they can't be gifted and they can't be made subject to a trust. That means they remain in the investor's estate for Inheritance Tax (IHT) purposes. The answer might be to continue using ISAs, and use some of the income to fund an appropriate life policy that can be held in an appropriate trust to cover the IHT liability. Alternatively, you could spend the ISA funds at retirement before buying an annuity or establishing drawdown of pension benefits, as these are more IHT-efficient up to age 75 should you die.

TRANSFER YOUR ONSHORE BOND BEFORE SURRENDER

Investment bonds provide a tax-efficient way of holding a range of investment funds in one place and aim to provide long-term capital growth. Income from investment bonds is deemed by HM Revenue & Customs to be net of basic-rate tax, although additional tax may be payable when the bond is encashed, in part or full.

If you are a higher-rate taxpayer and your spouse or registered civil partner is a lower-rate or non-taxpayer, you have the option to transfer the bond, or segments of the bond, to them. This means any future chargeable event on encashment is assessed on your partner, reducing the potential income tax liability on any gain realised. This is a complex area and you should obtain professional financial advice first.

SHARE YOUR ASSETS TO REDUCE CAPITAL GAINS TAX (CGT) AND INHERITANCE TAX (IHT)

CGT is payable when you sell or transfer an asset, but transfers between spouses or civil partners are exempt. The CGT allowance lets you make a certain amount of gains each year before you pay tax. For the 2013/14 tax year, the allowance is £10,900. However, this allowance is per individual. So, by spreading assets such as your investment portfolio between you and your spouse or civil partner, you are effectively doubling the allowance to £21,800 before you pay CGT.

What's more, the rate of CGT you pay is based on your income tax status, with basic-rate taxpayers paying 18 per cent and higher-rate taxpayers paying 28 per cent. So, holding assets in the name of the individual paying the lower rate of tax makes sense. In the same way, transfers of assets between spouses and civil partners are also exempt from IHT.

Any unused IHT nil rate band – the amount of your estate that is not subject to IHT (currently £325,000) – can be used by the surviving partner's executors on their subsequent death. ■

TIME TO TALK ABOUT YOUR OPTIONS?

We all want the future taken care of, which is why we combine genuine insight into your needs and circumstances with a comprehensive understanding of the different vehicles available. To find out more, please contact us.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

REAL HELP WHEN **YOU NEED IT MOST**

A very difficult time for your health and your wealth

The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. But critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

> **CRITICAL ILLNESS ASSURANCE PAYS A TAX-FREE LUMP SUM ON DIAGNOSIS OF ANY ONE OF A LIST OF SPECIFIED SERIOUS ILLNESSES, INCLUDING CANCER AND HEART ATTACKS.**

SOMETHING CRITICAL

Critical illness assurance pays a tax-free lump sum on diagnosis of any one of a list of specified serious illnesses, including cancer and heart attacks. The good news is that medical advances mean more people than ever are surviving life-threatening conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose.

CORE SPECIFIED CONDITIONS

All policies should cover seven core specified conditions. These are cancer, coronary artery bypass, heart attack, kidney failure, major organ transplant, multiple sclerosis and stroke. They will also pay out if a policyholder becomes permanently disabled as a result of injury or illness.

But not all conditions are necessarily covered. The Association of British Insurers (ABI) introduced a set of best practice guidelines. In May 2003, the ABI introduced other measures. These included conditions such as non-invasive skin cancers and less advanced cases of prostate cancer. Tumours that have not yet invaded the organ or tissue, and lymphoma or Kaposi's sarcoma in the presence of HIV are excluded.

There are also more restrictive conditions for heart attacks. There has to be evidence of typical chest pain, or changes in the electrocardiogram (ECG), for example, if a claim is to be successful. Cardiac conditions, such as angina, will not be covered.

GETTING IT COVERED

While life assurance is often the priority of those with dependant family members, critical illness cover can be vital if you are the sole breadwinner, rely heavily on your income or are single. It provides a welcome financial boost at a time of emotional stress and financial hardship.

Before you take out critical illness cover, you need to obtain professional financial advice to make sure that it is right for you and offers sufficient cover. ■

DO YOU HAVE PEACE OF MIND SHOULD THE WORST HAPPEN?

No one ever likes to think about getting ill, but how would you and your family cope if you became too ill to work? To talk to us about your concerns, please contact us – we look forward to hearing from you.

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.

ASSET ALLOCATION

Risk is an implicit aspect to investing

If you are going to invest you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect to investing: shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment portfolio should be invested in the different types of investment is called 'asset allocation'.

ASSET CLASSES

The various asset classes come with different levels of risk (volatility of returns) and thus deliver different expected returns over the medium to long term. But, no one asset class always performs best over an investment period. Asset classes consist of a group of securities with varying degrees of risk.

There are three main asset classes:

- Equities
- Bonds (also referred to as fixed income)
- Cash

Each asset class has different investment characteristics, for example, the level of risk and potential for delivering returns and performance in different market conditions

EQUITIES

Equities (also known as 'ordinary shares', or 'shares') are issued by a public limited company, and are traded on the stockmarket. When you invest in an equity, you buy a share in a company and become a shareholder. Equities have the potential to make you money in two ways: you can receive capital growth through increases in the share price, or you can receive income in the form of dividends. Neither of these is guaranteed and there is always the risk that the share price will fall below the level at which you invested.

BONDS

Bonds, also referred to as 'fixed income securities', are issued by companies and governments as a way of raising money and are effectively an 'I.O.U'. Bonds provide a regular stream of income (which is normally a fixed amount) over a specified period of time, and promise to return investors their capital on a set date in the future. Once bonds have been issued, they're bought and sold between investors without the involvement of the issuer. Bonds are generally considered to offer stable returns, and to be lower risk than equities – and hence deliver lower returns than equities.

CASH

Cash tends to be held within a bank account where interest can be gained. Alternatively, cash funds use their market power to get better rates of return on deposits than you would get in an ordinary bank account. They often invest in very short-term bonds known as 'money market instruments', which are essentially banks lending money to each other. In addition, cash funds can provide exposure to global currencies, which may not be easy to purchase on the open market and could be costly transactions.

DIFFERENT CHARACTERISTICS FOR RISK

These asset classes have different characteristics for risk. When you are young you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long-term growth. As you get closer to retirement you may want to choose more conservative investments that are steadier in both risk and return.

There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. While these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

If you put all of your eggs in one basket, you are more vulnerable to risk. Different investments behave in different ways and are subject to different risks. Saving your money in a range of assets helps reduce the loss, should one of your investments suffer a downturn.

A NEED TO DIVERSIFY

There is also a need to diversify within each type of investment. This is especially important in the case of share and bond investing, but can even be true of cash, where the risks are generally lowest. Putting all your money in one deposit account runs the risk that the interest paid on that account will change relative to other accounts. This could mean that the interest you receive is no longer as good as when you originally invested.

It is important to remember that all investments have a degree of risk. Even choosing not to invest is risky. The key is to get the right balance. Most people need a mix of assets in order to achieve their goals. The

mix required depends upon individual needs.

By spreading your investments over a wide range of asset classes and different sectors, it is possible to avoid the risk that your portfolio becomes overly reliant on the performance of one particular asset. Key to diversification is selecting assets that behave in different ways.

DIFFERENT 'STYLES' OF INVESTING

Some assets are said to be 'negatively correlated', for instance, bonds and property often behave in a contrarian way to equities by offering lower, but less volatile, returns. This provides a 'safety net' by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as across different sizes of companies, different sectors and different geographic regions.

Growth stocks are held as investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that can out- or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it's essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

A 'PAPER LOSS'

The important thing to remember with investments is that even if your investment goes down, you will only actually make a loss if you cash it in at that time. When you see your investment value fall, this is known as a 'paper loss' as it is not a real loss until you sell.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.

While all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly and with more risk your investment may fluctuate more.

CURRENCY RISK

You should also be aware of currency risk. Currencies (for example, sterling, euros, dollars and yen) move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. Investing in cash may not beat inflation over the long term. ■

WE CAN DEVELOP THE BEST PORTFOLIOS FOR YOU

No matter what your investment goals are, we can work with you to develop the best portfolios for you. To discuss how we can help you make an informed choice to growing your wealth, please contact us for more information.

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

GREATER FLEXIBILITY **FOR PENSION SAVERS**

New individual protection rules introduced

New rules announced by HM Revenue & Customs provide people with large pension savings the flexibility to continue to receive valuable employer contributions to their pension.

Higher- and additional-rate tax payers in particular may be better off receiving these pension contributions rather than receiving the benefit as additional salary, even though the future value of the additional pension contributions may exceed the Lifetime Allowance (and be subject to a 55 per cent tax charge if taken as a lump sum in retirement).

SERIOUS CONSEQUENCES

Not being able to make money purchase pension contributions under fixed protection means there could be serious consequences in applying this form of protection. For some, ceasing to contribute to a pension scheme may mean they lose any lump sum death benefit, as well as any future employer contributions.

Even if the employer agrees to pay the pension contribution to the employee as part of their salary instead, the tax and NI the employee will pay on the extra salary will leave them with significantly less to be able to personally invest outside of pension savings. This could mean they end up in a worse position than if they had continued active membership of their pension scheme and suffered the 55 per cent tax on the Lifetime Allowance (LTA) excess.

This shows the employee could end up with 55.8 per cent more as an initial investment through using their pension fund compared to receiving the equivalent net payment as salary.

Take into account other factors such as:

- savings within a pension fund benefits from gross roll-up
- gains within a pension are not liable to capital gains tax

It is clear to see that there are benefits to continuing to make pension contributions regardless of the tax charge that may apply to the eventual value of those savings.■

RETIREMENT MATTERS ?

To discuss your retirement planning options, don’t leave it to chance - please contact us for more information. We look forward to hearing from you.

From 6 April 2014 the Lifetime Allowance (LTA) on pension savings will reduce from £1.5m to £1.25m. Pension savings over the LTA will be subject to a tax charge of 55 per cent if taken as a lump sum. People have up until 6 April 2014 to apply for fixed protection on their pension savings up to the value of £1.5m. This will protect the growth of existing savings from the LTA tax charge of 55 per cent up to the level of £1.5 million. People can also apply for personal protection, which will protect the current level of savings of between £1.25m and £1.5m, but will not protect against the future growth of those savings. Unlike fixed protection, with personal protection people are able to continue to make further pension contributions on which they can benefit from immediate tax relief at their highest rate(s) – these future contributions are likely to provide benefits that exceed the LTA which will suffer a 55 per cent tax charge when that excess value is taken as a lump sum.

Individual protection and fixed protection have different rules as the following comparison highlights:

	INDIVIDUAL PROTECTION	FIXED PROTECTION
Can money purchase pension contributions continue?	yes	no
Can membership of final salary scheme continue?	yes	yes - but protection will be lost if any deemed benefit accrual arises post 6 April 2014
What will an individual's lifetime allowance be?	The value of the pension savings as at 5 April 2014 - which must be greater than £1.25m but subject to an overall maximum of £1.5m	£1.5m max
Will it protect growth on those savings?	no	yes - up to £1.5m

“HIGHER- AND ADDITIONAL-RATE TAX PAYERS IN PARTICULAR MAY BE BETTER OFF RECEIVING THESE PENSION CONTRIBUTIONS RATHER THAN RECEIVING THE BENEFIT AS ADDITIONAL SALARY, EVEN THOUGH THE FUTURE VALUE OF THE ADDITIONAL PENSION CONTRIBUTIONS MAY EXCEED THE LIFETIME ALLOWANCE (AND BE SUBJECT TO A 55 PER CENT TAX CHARGE IF TAKEN AS A LUMP SUM IN RETIREMENT).

The table below demonstrates the difference between £10,000 being paid into a pension and £10,000 being paid as extra salary assuming the individual is a higher-rate tax payer:

	PENSION CONTRIBUTION CONTINUES TO BE PAID BY EMPLOYER	PENSION CONTRIBUTION STOPPED AND PAID TO EMPLOYEE INSTEAD	DIFFERENCE
Gross payment by employer	£10,000	£10,000	
Personal tax 40%	n/a	-£4,000	
Employer NI 13.8%	n/a	-£1,380	
Employer NI 2%	n/a	£200	
Total	£10,000 in pension	£4,420 net pay	£5,580 or 55.8%

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.

BUILDING NEW UNTOUCHED PENSION SAVINGS

An opportunity to potentially improve tax-efficiency

Drawdown is the main alternative to a secure annuity income. It is more flexible than an annuity but is also more complex and higher risk. Figures from Skandia (08 July 2013) show only one third (35 per cent) of people in drawdown are actually taking their full income allowance.

This means two thirds (65 per cent) of people with money purchase pension savings have the opportunity to potentially improve their tax-efficiency, and hence their overall long-term wealth. This can be achieved by opting to use some or all of their available pension income to build new untouched pension savings.

QUALIFY FOR TAX RELIEF

Individuals under 75 can currently achieve tax relief on contributions into a pension of up to £3,600 each year, even if they are not working. If someone is working they will qualify for tax relief on further contributions, subject to the annual contribution allowance and the level of their earnings.

NEW PENSION SAVINGS

Using the pension income to invest into new pension savings can have many benefits and no real downside. The income tax paid when money is taken from the existing pension is offset by the tax relief received when it is invested as new pension savings.

FUTURE RETIREMENT INCOME

Utilising unused drawdown income in this way, the new pension fund is not deemed to be 'in drawdown' and is not subject to the 55 per cent tax liability on lump sums paid to beneficiaries on death before age 75. The newly created pension fund will provide a further 25 per cent tax-free lump sum as part of their future retirement income (provided the savings are within the Lifetime Allowance).

TAX-FREE SUM

For those in drawdown who have taken their tax-free lump sum but are not using all of their available income to improve the tax-efficiency of those savings with no real cost to themselves, not only does this planning reduce the potential tax liability for their beneficiaries on any available lump sum if they die before 75, it will also build another 25 per cent tax-free lump sum, helping to provide greater income in the longer term. This is good news for appropriate pensioners who may not be taking the maximum income allowance each year to build a more effective retirement income strategy. ■

Drawdown is a complex product. If you are at all uncertain about its suitability for your circumstances, you should seek professional financial advice. Your income is not secure. You control and must review where your pension is invested, and how much income you draw. Poor investment performance and excessive income withdrawals could deplete the fund.

"BY UTILISING UNUSED DRAWDOWN INCOME IN THIS WAY, THE NEW PENSION FUND IS NOT DEEMED TO BE 'IN DRAWDOWN' AND IS NOT SUBJECT TO THE 55 PER CENT TAX LIABILITY ON LUMP SUMS PAID TO BENEFICIARIES ON DEATH BEFORE AGE 75.

WANT TO CONSIDER YOUR DRAWDOWN OPTIONS?

To discover if drawdown could form part of your retirement income strategy, please contact us to discuss your requirements.

ROADS TO WEALTH

Financial challenges facing Britain's young adults

Skandia's study about the roads to wealth for Britain's youth highlights the financial challenges many young adults experience as they move away from home to establish themselves as independent individuals.

One of the key findings the report has shown is that 4.1 million people in the UK aged between 18 and 30 are undergoing a 'Quarter Life Crisis', where they struggle to feel satisfied with the path their life is taking financially, professionally and emotionally.

The 'Quarter Life Crisis' state is linked with the transition into adulthood; a period of change and life-defining decisions that puts pressure on individuals to fulfil the high expectations created during their formative years.

QUARTER LIFE CRISIS

4.1million young adults (aged 18-30) are experiencing some form of quarter life crisis, and around 1.7million of them could be described as being in severe crisis.

Women are more likely to suffer a quarter life crisis than men, with 40 per cent of women showing symptoms compared to 28 per cent of men.

Three 'types' of individuals affected by the quarter life crisis emerged from the research findings:

Impatient Achievers (13.4 per cent):
Highly skilled and ambitious, they have great expectations and are under immense pressure to succeed.

Low-ambition Spenders (34.4 per cent):
Less skilled and ambitious, they are struggling to make ends meet and feel lost in an increasingly competitive labour market.

Natural-born Worriers (52.5 per cent):
Somewhat skilled and mildly ambitious, their situation is not particularly bleak. They are generally young with the capacity to save but are still negative about the state of affairs.

GENERAL FINDINGS

The bank of Mum and Dad is the number one choice for providing 18-30-year-olds with financial help, with mums (30 per cent) more likely to be asked for cash than dads (28 per cent).

The stereotype of daughters finding dads a softer touch than mums is a myth: over a third (34 per cent) of daughters would approach their mum first, with just over a quarter (26 per cent) approaching their dad.

Almost one in seven (15 per cent) 18-30-year-olds are currently out of work (excludes students).

Six in ten with a university degree found work within six months of leaving university. A third (32 per cent) found a job immediately but one in ten (10 per cent) took over a year to gain employment. Two thirds (65 per cent) have debts of less than £5,000.

In terms of life goals to achieve before age 31, owning a property is top of the wish list (56 per cent) for this group, with getting married a priority for half of them (51 per cent).

Just under half (45 per cent) would like to have paid off all debts by age 31 and almost the same number (44 per cent) would like to have started a family.

Only one in thirteen have a personal pension, while one in seven are saving for retirement through a company scheme. ■

Skandia commissioned CoreData Research UK to produce the report, which studies the main financial issues that concern young people in the UK. The sample included 1,076 UK-based 18-30-year-olds and was carried out between April and May 2013.

"4.1MILLION YOUNG ADULTS (AGED 18-30) ARE EXPERIENCING SOME FORM OF QUARTER LIFE CRISIS AND AROUND 1.7MILLION OF THEM COULD BE DESCRIBED AS BEING IN SEVERE CRISIS.

WHAT WOULD YOU DO **IF YOU LOST YOUR JOB TOMORROW?**

30 per cent of working adults think they would be able to find another job of a similar level and pay within six months

Legal & General's Job Security Index [1] asked respondents what they would do if they were to lose their job tomorrow. Nearly a third (30 per cent) of working adults said that they would find another job, of a similar level and pay, in the same sector within six months.

14 per cent say that they would compromise with a job at a lower level or pay, in any sector, to start as quickly as possible. Almost one in ten (8 per cent) think they would be unemployed for longer than six months, because of limited job opportunities available to them.

JOB SECURITY CONFIDENCE

Young workers, those aged 18-24, are currently the most optimistic about their chances of getting a new job if they lost their current one. Nearly two fifths (39 per cent) said that they would find another job, of a similar level and pay, in the same sector within six months of losing their job. Over three quarters (78 per cent) of young workers are confident about their job security, which is 6 per cent higher than the current average for all UK working adults at 72 per cent.

The older workers surveyed continue to display the least confidence in their job security. In the 55+ age range, 70 per cent said they are confident about their job security, a drop from October 2012 when the figure was 76 per cent. Those that are the most concerned about their job security are workers aged between 45 and 54, with only two thirds (66 per cent) saying they feel secure in their job.

MAINTAINING A STANDARD OF LIVING

The report suggests that UK workers are so familiar with uncertainty in the job market that it has now become the norm. Having adjusted to the ongoing environment, UK workers are worrying less about maintaining their standard of living, in what are still very difficult times. This could partly be due to the fact that they believe that they would get some work within six months if they were to lose their job. However, for those such as the one in ten workers who said that they would struggle to find another job and would be unemployed for longer than six months, worries about maintaining their standard of living could soon hit home. ■

Source: [1] The Legal & General Job Security Index is based on research conducted for Legal & General by YouGov of 2,581 UK representative employed adults, either employed full- or part-time or self-employed, over the period 1-5 July 2013.

ESTATE PRESERVATION

Helping you to look after and maintain your wealth in the most efficient way

If you are UK domiciled, Inheritance Tax (IHT) is currently charged at 40 per cent and is payable on your estate once your net assets exceed £325,000. For some married couples and registered civil partners, any unused percentage of the available allowance from the estate of the first to pass away may be claimed when the second spouse dies. Once the domain of the super-rich, wide-scale home ownership and rising property values have meant that more and more people need to implement an estate preservation strategy to protect their wealth.

"GIVING YOUR WEALTH AWAY TO ANOTHER INDIVIDUAL WHILE YOU ARE STILL ALIVE COULD ALSO REDUCE YOUR ESTATE'S EXPOSURE TO AN IHT LIABILITY.

MAKE PROVISIONS FOR A WILL

In the UK, if you don't have a will, your estate will be distributed according to rules set out by law. These are known as the 'Rules of Intestacy'. For example, in England and Wales, if you're married with children, the first £250,000 of your estate (plus any personal possessions) would pass to your spouse. The remainder would be split, half going to your children when they reach the age of 18 and the other half used to generate an income for your spouse, passing to the children on your spouse's death.

If you're not married, your estate will go to your blood relatives, even if you've been living with someone for several decades. This could be far from what you wish. Think about where you want your money to go and why. A will makes your wishes concrete and clarifies who should get what, but can also be reviewed over time.

LIFE ASSURANCE

Life assurance can play a big part in your estate preservation strategy. Rather than reduce a potential IHT liability, by taking out a plan to cover your estate's potential IHT liability and writing it in an appropriate trust, the payout can be used to meet any bills. More importantly, by putting it in an appropriate trust, it will be outside your estate so it won't form part of your estate and will not be liable for IHT.

GIVE IT AWAY

Giving your wealth away to another individual while you are still alive could also reduce your estate's exposure to an IHT liability. These transfers are potentially exempt from IHT and there is no limit on such transfers. This is an excellent way of transferring assets that you do not need to keep in your estate. However, it may be advisable to cover substantial gifts by insurance against death within seven years.

Any gifts you make to individuals will be exempt from IHT as long as you live for seven years after making the gift. If you give an asset away at any time but keep an interest in it – for example, you give your house away but continue to live in it rent-free – this gift will not be a 'Potentially Exempt Transfer'.

If you die within seven years and the total value of gifts you made is less than the IHT threshold, then the value of the gifts is added to your estate and any tax due is paid out of the estate.

Some gifts are immediately outside your estate. You can give as many people as you like up to £250 each in any tax year. If you want to give larger gifts, either to one person or several, the first £3,000 of the total amount you give will be exempt from tax. You can also make a regular gift as long as it is out of your income and doesn't affect your standard of living. A wedding or registered civil ceremony can also be a good excuse for an IHT-exempt gift. A parent can give up to £5,000, a grandparent £2,500 and anyone else £1,000.

TRUST IN YOUR FUTURE

Utilising a trust could be useful if you want to give some money to, for example, your children or grandchildren but are concerned they might not spend it wisely during their teenage years. Or, if you wanted to give away capital while keeping control over how it is managed and, in some instances, still being able to receive an income from it.

Tax charges can also come into play on the money placed in trust; however, generally, if this remains below the nil-rate band, you won't need to pay any tax, and in many cases it is likely that the level of tax suffered will be less than the 40 per cent headline IHT rate. ■

WANT TO GIVE YOUR FAMILY LASTING BENEFITS?

The structures into which you can transfer your assets can have lasting consequences for you and your family and it is crucial that you choose the right ones. The right structures can protect assets and give your family lasting benefits. To discuss how we could help you, please contact us for further information.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

Achieving a comfortable retirement.

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

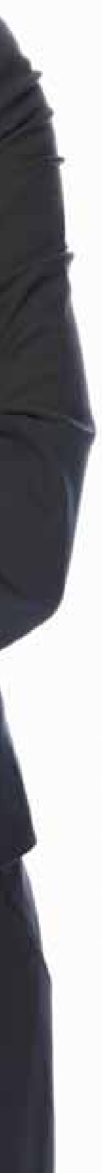
If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

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

GENDER NEUTRALITY CHANGES

Women retirees could boost pension income by 67 per cent

The combination of the recent rise in gilt yields, positive market performance, gender neutrality changes, and the 20 per cent uplift in income levels announced by the Government earlier this year, can provide a substantial boost to the level of income available for female pensioners.



Those taking income drawdown could see their maximum income level increase by as much as 67 per cent on the previous year.

RECALCULATION POINT

For those people currently in a three-year statutory review period, the 20 per cent uplift in the maximum annual income will happen automatically at the start of the next scheme income year following the 26th March 2013. It is important, however, that women understand any uplift as a result of the other factors will not happen until a recalculation point is triggered within the pension.

A recalculation point will be triggered automatically at the next statutory review point, but for some this could be up to three years away, during which time some factors may no longer be as beneficial.

A WIN-WIN SITUATION

One simple and effective way for females to trigger a recalculation point is to opt for an annual review facility with their product provider, if this facility is offered within their scheme. An annual review will give them the option, but not the obligation, to have income recalculated in line with current advantageous gilt yield comparatives and the increased capital value of their drawdown fund.

This could provide a win-win situation: if circumstances improve, people can benefit from those changes sooner than waiting for their next statutory review. They can lock in the higher income entitlement for a new three-year period from the start of their next scheme income year. However, if things have worsened, there is no obligation to accept a lower income level.

DRAWDOWN FUND

For those people who started income drawdown on or after 6th April 2006, another way of triggering a recalculation point is to move more pension savings across into the drawdown fund. If all the pension savings are already held in drawdown, it could be beneficial to make a new pension contribution (if they are aged under 75). This new pension fund can then be dripped down into drawdown and a new calculation point triggered.

The example below assumes a female has £100,000 in a drawdown fund, invests in the FTSE 100 Index, and the index level stays constant (as at the 26th July level). Due to the increase in age, rise in the gilt yield and increase in drawdown fund (assuming no capital was withdrawn), the amount of income available increases from £4,800 p.a. to £8,039 p.a. - an increase of 67 per cent. ■

Income drawdown is a complex product. If you are at all uncertain about its suitability for your circumstances you should seek professional financial advice. Your income is not secure. Income drawdown can only be taken once you have finished saving into pensions. You control and must review where your pension is invested, and how much income you draw. Poor investment performance and excessive income withdrawals can deplete the fund.

"FOR THOSE PEOPLE WHO STARTED INCOME DRAWDOWN ON OR AFTER 6TH APRIL 2006 ANOTHER WAY OF TRIGGERING A RECALCULATION POINT IS TO MOVE MORE PENSION SAVINGS ACROSS INTO THE DRAWDOWN FUND. IF ALL THE PENSION SAVINGS ARE ALREADY HELD IN DRAWDOWN, IT COULD BE BENEFICIAL TO MAKE A NEW PENSION CONTRIBUTION (IF THEY ARE AGED UNDER 75).

	01 Aug 2012	01 Aug 2013	Difference
Age	64	65	
Gilt yield	2.00	2.75	
GAD rate	0.048	0.0696	45%
FTSE 100	5,712.82	6,599.22	15%
Drawdown fund	£100,000	£115,516	
Max income level p.a.	£4,800	£8,039	£3,239 67%

BENEFITING FROM THESE CHANGES

Retirees in capped income withdrawal, particularly women, could have a real opportunity at the moment to plan ahead to receive more income from their pensions. Activating an annual review or topping-up their drawdown fund is the simplest ways for females to benefit from these changes sooner rather than later.

TIME TO AIM FOR HIGHER RETURNS

Taking a different approach to investments can generate greater wealth

When it comes to taking investment risk to secure a higher return, those aged 55 and over are most likely to be taking the lead with Stocks & Shares Individual Savings Accounts (ISAs), according to research from Standard Life (08 April 2013). Over one in ten (11 per cent) of 55 and overs invest in the stock market via their ISA, compared to just 7 per cent of 35 to 44-year-olds.

Around two fifths (41 per cent) of UK adults are currently investing in Cash ISAs. However, less than one in ten (9 per cent) are investing in Stocks & Shares ISAs, despite low interest rates meaning that even tax-efficient Cash ISAs could be struggling to keep pace with inflation.

REVIEWING YOUR APPROACH

With the Monetary Policy Committee (MPC) continuing to keep interest rates low and inflation relatively high, cash held in an ISA or a savings account could be eroded in real terms. So now might be worth reviewing your approach and, if appropriate, considering whether you could take more risk with some of your cash. You could potentially invest in the stock market instead, through a tax-efficient Stocks & Shares ISA, to try to beat inflation. However, it's always sensible to keep some money in cash, where it is safe and you can get instant access to it.

CONSIDER YOUR OPTIONS

For those individuals willing to take more risk with a proportion of their money, there is the option to consider using as much of the current annual £11,520 (2013/14) Stocks & Shares ISA allowance as they can this tax year. The annual ISA allowance is per individual. This means that a husband and wife, or registered civil partnership, for example, can invest up to £23,040 between them into ISAs this tax year.

The research from Standard Life (08 April 2013) also reveals men and women take a very different approach to their investments. Over one in ten (12 per cent) men currently save into a Stocks & Shares ISA, compared to only just over one in twenty (6 per cent) women. An equal percentage of men and women are currently saving into Cash ISAs (41 per cent for both).

ISA MATTERS

Use as much of your current £11,520 (2013/14) ISA allowance as possible in this tax year. You can invest this full amount in a Stocks & Shares ISA so you have the chance of greater tax-efficient growth over the longer term. Investing regularly each month can help to smooth out any short-term ups and downs in the stock market.

Review your Stocks & Shares ISA investment regularly to make sure it is performing as expected. Reinvest to help generate more income. Remember that if you choose an ISA that generates income, you can reinvest this money as well as paying it into a bank account. This means you have the opportunity to continue to generate income based on your long-term investments. ■

INTERESTED IN ISAS?

No matter what your investment goals are, we can work with you to develop the best portfolios for your requirements. How can we help you? Please contact us for further information.

Source: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,059 adults. Fieldwork was undertaken between 25-28 January 2013. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

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