Almary Green

> Independent Financial Advisers

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AUTUMN 2011

Planning for tomorrow

What retirement income should you aim for?

New pension rule opportunities

When was the last time you reassessed your savings strategy?

Trust in your future

Passing on wealth in a tax-efficient manner

SOCIAL CARE COSTS

Keeping pace with the growing size of an ageing population.

Shared investments

How to diversify your portfolio

In search of income

Is your cash struggling to keep pace with inflation?

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Welcome

Welcome to the latest issue of our magazine. Inside this edition you will find a diverse range of subjects that will help you make more of your money.

Retirement may seem a long way off but are you saving enough now for a comfortable retirement in the future? A general rule of thumb suggests that you should aim for a retirement income of two-thirds of the amount you would expect to be earning at the end of your career. It can be hard to plan for tomorrow in this current climate of austerity when we're busy living for today, but if you begin planning and saving now you'll have more options in the future (see page 05).

Inheritance Tax (IHT) is an issue affecting increasing numbers of households across the country. Changes introduced in Chancellor Alistair Darling's pre-Budget report in October 2007 have made it more straightforward for couples and civil partners to combine their individual IHT allowances, so that it is easier for them to protect their families' inheritance. Turn to page 09 to find out more.

Pension investors should reassess their savings strategy at least annually and particularly this year, following the coalition government's announcement of new pension rules. The new rules, which were introduced on 6 April this year, are designed to simplify the complex measures introduced by the previous government and may affect the amount you can save into and withdraw from your pension. Read the full article on page 10.

A full list of all the articles featured in this edition appears on page 03.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. 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.

Wrapping up your pension

Do you want more control over where your money is invested?

Self-Invested Personal Pensions (SIPPs) were introduced in 1989 to give those planning for retirement greater control over where their pension fund is invested. Essentially, a SIPP is a pension wrapper that is capable of holding investments and providing you with the same tax advantages as other personal pension plans.

MORE CONTROL

You can choose from a number of different investments, unlike other traditional pension schemes, giving you control over where your money is invested. A SIPP offers the widest range of pension investments, including cash, equities (both UK and foreign), gilts, unit trusts, OEICS, hedge funds, investment trusts, real estate investment trusts, commercial property and land, traded endowment plans and options.

CARRY FORWARD

There is an annual maximum tax-relievable contribution level of £50,000 for 2011/12. You could contribute more, but would be taxed at your marginal rate. Commencing from the start of the 2011/12 tax year, it is now possible to carry forward any unused allowance from the previous three tax years (for this purpose the maximum allowance is £50,000 per tax year). We would strongly recommend that you obtain professional financial advice if you would like to utilise this option.

Pensionable income, including employment income, bonus, benefits in kind, self employment and partnership profits, can all be contributed. Pensionable income does not include investment income, rental income or pension income.

If you make a contribution that takes your taxable earnings below the higher rate tax threshold, then the tax relief will be less than 40 per cent.

OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you need to spend time managing your investments.

Where investment is made in commercial property, you may have periods without rental income, and in some cases, the pension fund may need to sell on the property when the market is not at its strongest.

Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund. ■

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

1989
Year SIPPs were first introduced

£50,000
Maximum annual level of tax-relievalbe contribution (2011/12)

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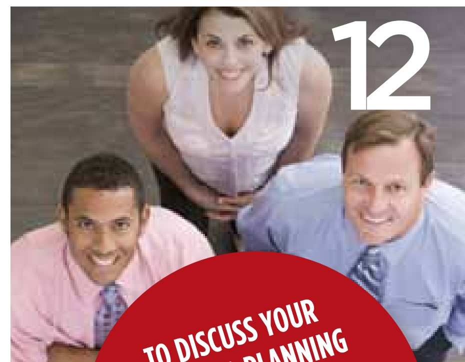

TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

WANT TO MAKE MORE OF YOUR MONEY?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
- ☐ Protection against the loss of regular income
- ☐ Providing a capital sum if I'm diagnosed with serious illness
- ☐ Provision for long-term health care
- ☐ School fees/further education funding
- ☐ Protecting my estate from inheritance tax
- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

Name ....
Address ....
....
....
....
.... Postcode ....
Tel. (home) ....
Tel. (work) ....
Mobile ....
Email ....

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

Retirement clinic

Consolidating your pension plans

The reasons people transfer their pensions vary, with some looking for better fund performance and lower charges, and others having been made redundant.

If you have a number of pensions from previous employers you should obtain professional advice as it may be appropriate to consolidate them, although this will depend on a number of different factors you'll need to discuss in full.

INCREASED BUYING POWER

If appropriate, consolidating your pension plans would enable you to bring all your retirement savings together, which could make it easier to manage or increase your choice of investment options – particularly useful if your existing funds are underperforming.

IS TRANSFERRING YOUR PENSION RIGHT FOR YOU?

Pension transfers are a complex area of retirement planning and you should be sure that a transfer is right for you before you proceed.

1. Compare the charges – how do the costs of your current pension compare with those of the potential new provider?

2. Exit fees – some pensions apply an exit fee when you transfer out, so check with your current provider before you transfer.

3. Loss of benefits – check what benefits from your current pension you could lose if you transfer out of it.

4. Compare the investment options – how does the range of investments from your current pension compare to that offered by the new pension provider?

THERE IS A WIDE RANGE OF PENSION TRANSFER OPTIONS AVAILABLE THAT PROVIDE A DIFFERING ARRAY OF BENEFITS AND ARRANGEMENTS. DUE TO THE COMPLEXITY OF PENSION TRANSFER ARRANGEMENTS, ANYONE RESEARCHING THIS ROUTE SHOULD DO SO WITH THE HELP OF PROFESSIONAL FINANCIAL ADVICE. IF YOU WOULD LIKE TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US FOR FURTHER INFORMATION.

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64%
Percentage of working adults aged 50-plus who either do not believe or do not know whether they will ever be financially prepared for retirement*.

26%
Percentage of working adults aged 50-plus who believe they are financially prepared for retirement*.

**Source: 'Metlife's '10 years to save for your retirement' publication' May 2011.*

Planning for tomorrow

What retirement income should you aim for?

Retirement may seem a long way off but are you saving enough now for a comfortable retirement in the future? A general rule of thumb suggests that you should aim for a retirement income of two-thirds of the amount you would expect to be earning at the end of your career.

It can be hard to plan for tomorrow in this current climate of austerity when we're busy living for today, but if you begin planning and saving now you'll have more options in the future.

SUFFICIENT INCOME

With the state pension and some private pensions falling short, can you rely on these alone to provide sufficient income? The state pension age for women is set to increase to 65 by 2018 and will rise to 66 by 2020 for everyone. The government has confirmed this timetable in the face of much opposition.

The decline in the state pension over recent decades and the diminution of the final salary scheme sector have left millions to fend for themselves in their retirement provision, though many will still enjoy some contributory support from their employer.

SIMPLE CONCEPT

You'll be surprised at the big difference it can make to your savings if you start saving early. This is because of 'compounding'.

Compounding is a simple concept. When you invest money you earn interest or income on your capital. Then next year you earn on both your original capital and the interest from the first year, and so on. It's the snowball effect – as your capital 'rolls down the hill', it becomes bigger and bigger. The earlier you start investing, the more time you have for compounding to take effect.

PRESERVE YOUR SAVINGS

The closer you get to retirement, the greater the need to preserve your savings and ensure they will last all through your retirement. This is also a time to consider what changes you may need to make to your investments as you approach retirement.

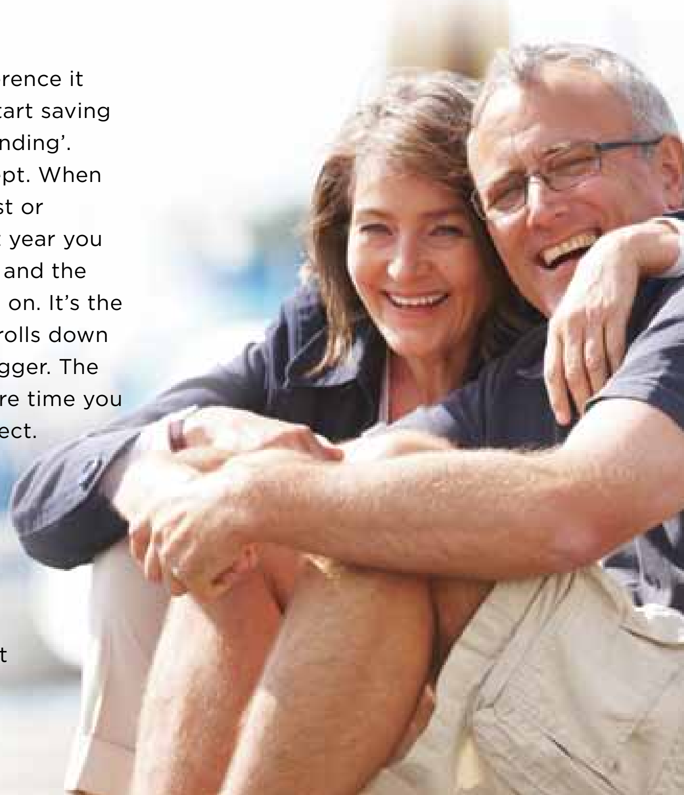
People are living longer, so you'll need to make sure your money lasts as long as you do. It's also crucial to make the right investment decisions now to ensure that over time your money will keep pace with the threat of rising inflation.

ENSURE YOUR PENSION PLANS ARE ON TRACK.

DO YOU KNOW THE ANSWERS TO THESE QUESTIONS?

- Are you paying enough into your pension?
- What income is your pension fund likely to buy you in retirement?
- At what age will you be able to afford to retire?
- Where is your money invested?
- How will you draw an income at retirement?

PLANNING FOR YOUR RETIREMENT CAN MAKE A WORLD OF DIFFERENCE. FOR MORE INFORMATION ABOUT MANAGING YOUR FINANCES WHEN YOU REACH RETIREMENT, PLEASE CONTACT US FOR FURTHER INFORMATION.



NEWS IN BRIEF

BRIDGING THE GAP

Will you be faced with an income shortfall?

While pensioners said they needed an average of £22,000 a year to live comfortably, their actual income averaged £15,800, according to a recent report by Prudential, the insurer. Almost two in five said they found living on their retirement income harder than they had expected.

INCOME SHORTFALL

Pensioners faced with an income shortfall are using a variety of ways to bridge the gap, the Prudential research found:

- 17 per cent of pensioners continue to work part-time
- 12 per cent have moved to a less expensive property
- 6 per cent have released equity from their home
- 5 per cent sold other assets to raise funds

Vince Smith-Hughes, the insurer's Head of Business Development, said: 'While some pensioners can draw on a range of assets and savings to boost their income and help them enjoy life in retirement, others simply get by on less than they would like.'

He added: 'As people are living longer and need to fund more years in retirement, it is increasingly important to seek advice from professionals and put by as much as possible, as early as possible.'

The research also found that women (41 per cent) were more likely than men (33 per cent) to find it difficult to live on their retirement income. ■

Getting a good mix of assets

Spreading your capital across different investment vehicles

Having the right mix of investments will enable you to plan to keep your savings ahead of any inflationary concerns you may have. Spreading risk and getting a good mix of assets is known as ‘diversification’. This is a relatively simple concept; it means spreading your capital across different investment vehicles rather than placing all your capital solely in one place.

SPREADING RISK

Diversification is an important factor for advisers and investors to consider. By spreading risk across different investment types, you reduce the chances of your entire investment capital being adversely affected by any sudden market movement in the sector that you happen to be invested in.

Taking calculated risks is an important part of managing your money. Saving money in deposit-based accounts is usually the safest option; however, the real value of your savings can be eroded over time by inflation. For most of us, savings alone may not deliver high enough returns to support our lifestyle in the future, for example the next five to ten years, let alone in retirement.

DIVERSIFIED APPROACH

If you are willing to accept the added risk of investing in asset-backed investments, it is important that you take a diversified approach. This means you spread your investments, and therefore your risk, among several asset classes. No investment is completely free of risk so the asset classes you choose and your relative exposure to each class must reflect your attitude to risk. You can build your own diversified portfolio by selecting your own investments, or you can entrust it to fund managers who will do it on your behalf.

When diversifying your portfolio, you will probably invest in a combination of UK equities, overseas equities, property, bonds and cash. Your relative weighting in each asset class will depend on your attitude to investment risk. You will also need balance within each asset class to ensure you do not overexpose yourself to one industry or currency. You’ll probably hold a basket of assets that behave differently in differing investment conditions. This can have a smoothing effect during volatile investment conditions, stabilising your overall investment return.

COLLECTIVE INVESTMENTS

Investing directly into the markets may be too risky for some people, which is why many investors choose to invest in collective investment funds, such as unit trusts and Open-Ended Investment Companies (OEICS), where you can pool your investment with others and spread your risk much wider.

You can also diversify within the geographical areas and asset types in which you are investing. This provides more scope to spread your portfolio across different-sized companies, from the big blue chips to smaller ones, and across managers with different investment styles. This enables you to reduce the impact on your investments from one region or sector or from a particular manager.

REDUCE YOUR RISK EXPOSURE

By diversifying your assets and classes of assets more widely you can actually effectively reduce your risk exposure, although even with a diversified portfolio the value of investments can go down as well as up.

It’s not always easy making decisions about how to invest your hard-earned money. There’s a lot to consider and it can be difficult to know where to start. We can provide the essential information you’ll need to enhance your understanding of investment and the products available, allowing you to make better choices. ■

TAKING INTO ACCOUNT YOUR ATTITUDE TO RISK, WE WILL BE ABLE TO HELP YOU SELECT A PORTFOLIO THAT MEETS YOUR NEEDS, SO FOR MORE INFORMATION PLEASE CONTACT US.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

Shared investments

How to diversify your portfolio

The risk of directly investing in a single investment is that if the price drops in value, or the issuing company goes bust, you could lose money.

A way of reducing this risk is having a spread of investments in different types of a particular asset. So rather than buying shares in one company, you might buy shares in ten different companies to diversify your portfolio and help spread the risk around.

REDUCING RISK

Unit trusts and Open-Ended Investment Companies (OEICs) are forms of shared investments, or funds that allow you to pool your money with thousands of other people and invest in world stock markets. Unit trusts have proved incredibly popular because by investing in a broad spread of shares your spread and therefore risk is reduced. But they are gradually being replaced by their modern equivalent, the OEIC (pronounced 'oik').

While the underlying structure of these two types of investments differ for the investor they operate in the same way.

Both investment vehicles pool your money with other people's to invest in:

- a spread of shares or bonds
- or other investments
- or a combination, depending on their investment objectives

You can buy and sell 'units' or 'shares' respectively at any time, and the price you receive is based on the value of the underlying assets the fund has invested in.

MARKET DEMAND

Investment trusts are like unit trusts and OEICs. When you invest in an investment trust, your money is pooled with other people's to invest in a wide spread of assets. But an investment trust is a company that is traded on the stock exchange with a fixed number of shares of its own. This means that, unlike the other pooled investments, the price you pay reflects the market demand for the investment trust shares rather than the value of the underlying assets.

So sometimes you'll buy at a 'premium' to the asset value or, in other words, pay more than the underlying value. Other times you'll buy at a 'discount' or pay less than the underlying value. ■

YOU CAN'T CONTROL THE MARKETS BUT YOU CAN HAVE A PLAN. WE CAN HELP YOU PLAN AND BUILD AN INVESTMENT PORTFOLIO THAT'S RIGHT FOR YOU AND THAT WILL ENABLE YOU TO PRODUCE INCOME AND/OR CAPITAL GAINS. FOR MORE INFORMATION, PLEASE CONTACT US.

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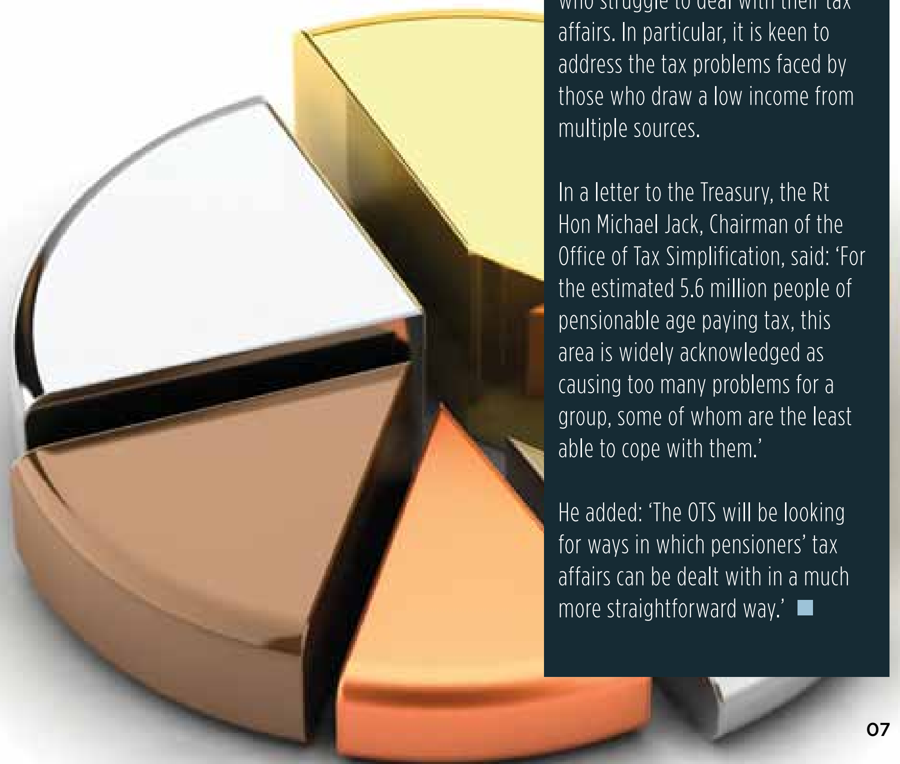

NEWS IN BRIEF

LIFE FOR PENSIONERS COULD BE ABOUT TO GET EASIER

Proposals announced to unravel a raft of complicated tax laws

Life could be about to get easier for the retired. The Office of Tax Simplification (OTS) will turn its attention to pensioners in an attempt to unravel a raft of complicated tax laws relating to them.

The OTS, set up by Chancellor George Osborne in 2010, will draw up a list of proposals in time for next year's Budget aimed at easing the plight of more than 5 million pensioners who struggle to deal with their tax affairs. In particular, it is keen to address the tax problems faced by those who draw a low income from multiple sources.

In a letter to the Treasury, the Rt Hon Michael Jack, Chairman of the Office of Tax Simplification, said: 'For the estimated 5.6 million people of pensionable age paying tax, this area is widely acknowledged as causing too many problems for a group, some of whom are the least able to cope with them.'

He added: 'The OTS will be looking for ways in which pensioners' tax affairs can be dealt with in a much more straightforward way.' ■

Securing an income for life

Converting your pension fund into an annuity

Whether your retirement is a long way off or just around the corner, it's important to think about how much income you're going to have. And as you approach retirement, you'll also have to decide how you'd like to receive the money from any pensions you've been saving towards. The most popular way of securing an income for life is by converting your pension fund into an annuity.

A GUARANTEED INCOME FOR LIFE

An annuity provides you with a guaranteed income for life when you retire. You buy an annuity using a lump sum from your pension or, perhaps, some savings. Annuities remove the worry of having to budget for an unknown period of time.

You can buy your annuity from any provider and it certainly doesn't have to be with the company you had your pension plan with. The amount of income you will receive from your annuity will vary between different insurance companies so it's essential to shop around for comparisons before making your decision. This could be an expensive mistake if you get it wrong. The difference between the annuity rates will be dependent on the annuity terms selected.

Annuities can't be changed once set up so it is vital you secure the best possible income. Even though you don't have to stay with the company your pension is currently held with, many people still do.

TYPES OF ANNUITY

PENSION ANNUITY

A Pension Annuity is bought using money from your pension fund. It may be appropriate if you require a guaranteed income for life, based on the value of your pension, and want to choose whether your income stays the same or increases each year. You could also qualify for a higher income due to a previous or existing medical condition your partner or you have.

An annuity promises to pay you a guaranteed regular income for life. You have the choice to receive your annuity income monthly, quarterly, half-yearly or annually. Payments can be 'in advance' (from the start date) or 'in arrears' (at your chosen payment interval after the start date).

If you don't have a clean bill of health or you have (or have previously had) one of a range of medical conditions affecting your health or longevity, you may receive a higher income. You may also be eligible if you have lifestyle conditions, such as if you smoke or are overweight.

Once started, your annuity income will not usually go down, even if your health, or your spouse's health if applicable, improves. Depending on how long you live, you may get back less than you bought your annuity for. Once you've bought an annuity it cannot be cashed in at any time and there is no cash-in value.

You can take out an annuity that stops whenever you die. Or, alternatively, you can choose an annuity with a smaller income but which is guaranteed to be paid for either five or ten years. This is called the 'guarantee period'. The options you choose at the start of your plan can't be changed.

WITH-PROFITS PENSION ANNUITY

If you'd like to give your retirement income the potential to grow and you're happy to accept an element of risk, you could choose this annuity that invests in a With-Profits Fund. With this option, the amount of income you receive has the potential to increase over time.

It guarantees to pay an income to you for the rest of your life. The underlying annuity fund is invested in a wide range of investment assets and the income payable to you each year depends on the investment returns of those assets and the initial bonus rate selected.

This is a stock market related investment. Your income can vary from year to year and could go down. However, your income will never fall below a certain guaranteed level in the case of a with-profits pension annuity.

Your income can be paid monthly or yearly, either 'in advance' (from the start date) or 'in arrears' (at your chosen payment interval after the start date). The amount of income you receive has the potential to go down as well as up. ■

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THERE ARE A NUMBER OF WAYS OF TURNING YOUR PENSION INTO A REGULAR INCOME FOR RETIREMENT. IF YOU NEED HELP DECIDING WHICH ANNUITY OR OPTIONS ARE MOST SUITABLE FOR YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

Trust in your future

Passing on wealth in a tax-efficient manner

Inheritance Tax (IHT) is an issue affecting increasing numbers of households across the country. Changes introduced in Chancellor Alistair Darling's pre-Budget report in October 2007 have made it possible for couples and civil partners to combine their individual IHT allowances, so that it is easier for them to protect their families' inheritance.

IHT is currently payable at 40 per cent on any amount over £325,000 – the nil rate band (tax year 2011/12). The nil rate band is the term used to describe the value an estate can have before it is taxed (£650,000 for married couples). So if you have an estate worth £500,000, £175,000 is taxed at 40 per cent, meaning the IHT bill would be £70,000.

ESTATE PLANNING TOOL

Trusts are a well-established and useful tool in estate planning. A trust allows someone (the settlor) to make a gift of assets, without completely losing control of those assets, by placing them with a third-party (the trustees) to administer on behalf of the trust beneficiaries.

The value of a trust in IHT planning is that it enables you to reduce the wealth on which your beneficiaries will pay IHT without making a valuable outright gift – something you might be reluctant to do if the potential recipients are quite young or might take an irresponsible approach to a substantial sum of money, for example.

PASSING ON WEALTH

The trust allows wealth to be passed on in a tax-efficient manner under the control of the trustees, who can include the settlor. There are different types of trust. Some give the trustees very little discretion, but can be useful when the aim is to establish the future use of assets. For example, a Will trust could give a widow the right to certain income, with the capital passing to any children on her death.

Other trusts, known as discretionary trusts, allow the trustees to retain control of the assets under the terms of the trust, which set out when and what the beneficiaries receive. They can also allow the trustees to react to changes in the beneficiaries' circumstances. Again, the settlor can be named as a trustee.

BARE (ABSOLUTE) TRUSTS

With a bare trust you name the beneficiaries at the outset and these can't be changed. The assets, both income and capital, are immediately owned and can be taken by the beneficiary at age 18 (16 in Scotland).

INTEREST IN POSSESSION TRUSTS

An interest in possession trust is one where the beneficiary of a trust has an immediate and automatic right to the income from the trust after expenses. The trustee (the person running the trust) must pass all of the income received, less any trustees' expenses, to the beneficiary.The beneficiary who receives income (the 'income beneficiary') often doesn't have any rights over the capital held in such a trust. The capital will normally pass to a different beneficiary or beneficiaries in the future. Depending on the terms of the trust, the trustees might have the power to pay capital to a beneficiary even though that beneficiary only has a right to receive income.

DISCRETIONARY TRUSTS

Here the trustees decide what happens to the income and capital throughout the lifetime of the trust and how it is paid out. There is usually a wide range of beneficiaries but no specific beneficiary has the right to income from the trust. ■

INVESTMENT DECISIONS

New figures reveal the best-performing investment sectors

We understand that choosing investments can be difficult, so we are here to support you in making your investment decisions. Whether you're a first-time or an experienced investor, we can help you explore your options.

New figures reveal that UK small caps have been the best performers over the past year to 31 July 2011, followed by trusts that invest in property securities, according to the Association of Investment Companies (AIC).

Annabel Brodie-Smith, Communications Director at the AIC, stated that uncertainty over the past six months from events in Japan and the Eurozone had contributed to what has been dubbed a hippo market – one that wallows about with sudden bursts of volatility.

She said: 'It's almost impossible to time the market, least of all pick the top performers of the future. So a balanced portfolio, taking into account geographical and sector allocation, discounts, gearing and charges, is a good place to start.

'Cautious investors may also like to consider regular investing, which can help smooth out some of the highs and lows in the price of shares, reducing investors' risk profile. And while it's always interesting to look at short-term trends, above all, investors need to remember that investing is for the long term.'

Adding further fuel to the investing argument against the debt-laden developed economies, the best-performing investment sectors over the longer term have been Asia Pacific, emerging markets and commodities, according to the AIC. ■

PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.

*Source: 'Metlife's '10 years to save for your retirement' publication' May 2011.

50-plus

The average amount working adults aged 50-plus have saved in their pension fund is £51,200*.

4%

Percentage of working adults aged 50-plus who have funds of more than £200,000*.

New pension rule opportunities

When was the last time you reassessed your savings strategy?

Pension investors should reassess their savings strategy at least annually, and particularly this year, following the coalition government's announcement of new pension rules.

COMPLEX MEASURES

The new rules, which were introduced on 6 April this year, are designed to simplify the complex measures introduced by the previous government and may affect the amount you can save into, and withdraw from, your pension.

Previously, the amount you could contribute to a pension depended on your total income and the more you earned, the more complex the rules became.

UNUSED ALLOWANCE

On 6 April 2011, this complexity was swept away and replaced with a simple flat £50,000 gross annual limit on contributions, with tax relief available up to 100 per cent of earnings or the above allowance, whichever is lower. The government has also given savers the ability to 'carry forward' any unused allowance from 2008/9, 2009/10 and 2010/11 so long as they were a member of a registered pension scheme during those years. An annual allowance of £50,000 will be assumed for those tax years for carry-forward purposes.

The unused allowance is not scheme specific – it relates to all pension schemes that an individual may be contributing to, or in which they have benefits accruing. So, subject to a person's previous contribution history, they could in theory contribute an additional £150,000 into their pension commencing from the start of this current tax year. Some higher earners who were reluctant to contribute to their pensions in the previous two years will find this facility very attractive.

DELAYING CONTRIBUTIONS

However, the reduction in the annual allowance from £225,000 to £50,000 means investors will need to assess carefully the potential cost of delaying pension contributions as it will no longer be possible to make large contributions on a regular basis to make up for previous years.

The government is to reduce the total sum that can be invested in a pension (the lifetime allowance) from £1.8m to £1.5m from April 2012 and will introduce transitional rules for those who have accumulated pension benefits based on the current lifetime allowance of £1.8m.

PREVIOUS RULES

Under the previous rules, when a person reached age 75 (this rule has now been abolished), they had to take their pension fund and either purchase an annuity or invest in an Alternatively Secured Pension (ASP). On death, the ASP may have been subject to a tax penalty of up to 82 per cent.

From 6 April 2011, this tax has been replaced with a flat 55 per cent tax charge paid at death on the pensions of individuals over 75 or, for those under 75, on the part of their pension they have so far drawn down. For the first time this enables people to pass on some of their pension savings to relatives beyond a surviving spouse. Annuities can now be taken after age 75.

FLEXIBLE DRAWDOWN

A new concept of 'Flexible Drawdown' has been introduced, allowing individuals to draw down unlimited amounts from their pension funds providing they have secured a minimum income, currently set at £20,000, to prevent them running out of money.

State pensions, annuities (but not purchased life annuities) and secured income from defined benefit schemes also count towards the minimum income assessment.

However, high withdrawals may erode the value of the pension fund; if investment returns are not sufficient to make up the balance this may reduce the amount of any potential pension annuity.

There is also no guarantee that an individual's income will be as high as that offered under the pension annuity (or compulsory purchase annuity).

The new rules regarding contributions do not affect just personal pensions and Self-Invested Personal Pensions (SIPPs) but also occupational schemes, including defined benefits or final salary schemes. ■

NOW IS THE TIME TO REVIEW PENSION ARRANGEMENTS TO ENSURE THEY ARE NOT CAPTURED BY THE NEW LIFETIME ALLOWANCE. IF YOU ARE UNCERTAIN ABOUT ANY OF YOUR PENSION ARRANGEMENTS, PLEASE CONTACT US FOR FURTHER ASSISTANCE.

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

In search of income

Is your cash struggling to keep pace with inflation?

The current low interest rates are good news for mortgage repayments but not so good if you are relying on your savings to produce an income. If you are a saver rather than a borrower, you will have noticed the interest you are receiving has fallen some way in recent years.

EMERGENCY FUND

Savers who have seen their savings lose ground to inflation will benefit from reassessing the role of cash in their portfolios. Cash is important to meet short-term purchases and as an emergency fund – 6 to 12 months' worth of expenditure is common. Cash deposits also work well if you're concerned about the prospects for markets or need your money back within five years, as stock market investments are for the long term.

However, with interest rates remaining at historic lows, cash is struggling to keep pace with inflation at present, particularly after tax. Therefore it may not be wise to hold too much cash if you are able to accept that your capital and income is not guaranteed and will fluctuate in value.

GENERATING INCOME

Generating an income from your investments is often an important requirement for people who are retired or approaching retirement, those who need to supplement their salary or those with a relatively short investment timeframe.

It is important that you seek professional advice when looking to invest for income as any solution needs to take account of your existing savings and investment portfolio and your attitude to investment risk. The following all offer alternative ways of producing an income from your savings; however, they all carry more risk to your capital than leaving it on deposit.

Equity income funds – these funds invest in shares of companies that tend to pay higher dividends on a regular basis for the purpose of providing an income.

Government bonds, or gilts – because most government loan stock is considered as safe an asset as you can get, the returns are lower than corporate bonds because of the lower risk.

Guaranteed income bonds – these offer a fixed income over a fixed period, usually up to five years. They often offer a capital guarantee as well, provided you hold them until maturity.

GREATER FLEXIBILITY

The new ISA rules also offer greater flexibility, including the option to transfer a Cash ISA to a Stocks & Shares ISA in search of a higher yield. This transfer does not affect your annual ISA subscription but it will put your capital at risk because the value of stock market investments is not guaranteed, so you could get back less than you invest.

Interest on cash in a Cash ISA is paid gross whereas within a Stocks & Shares ISA the income is only paid gross on corporate and government bonds; on everything else, including cash, the income is paid net. You can transfer money from a Cash ISA to a Stocks & Shares ISA but not the other way around. ■

ALTHOUGH INTEREST ON YOUR CURRENT DEPOSITS MAY BE AT AN ALL-TIME LOW, YOUR CAPITAL IS, AT LEAST, RELATIVELY SAFE. THEREFORE, BEFORE YOU SACRIFICE ANY SAFETY IN A SEARCH FOR INCOME, YOU SHOULD OBTAIN PROFESSIONAL FINANCIAL ADVICE. TO DISCUSS YOUR OPTIONS PLEASE CONTACT US.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

SOCIAL CARE COSTS

Keeping pace with the growing size of an ageing population

The funding of long-term care remains one of the biggest public policy challenges facing the government. As the baby-boomer generation grows older, it is estimated that spending on social care needs to double in real terms over the next twenty years just to keep pace with the growing size of the ageing population.

In July 2010, the Commission on Funding of Care and Support was set up by the coalition to review the funding system of care and support in England. Chaired by Andrew Dilnot, it presented its findings to the government in its report 'Fairer Care Funding', published on 4 July 2011.

Among the recommendations in the report are:

- Individuals' lifetime contributions towards their social care costs – which are currently potentially unlimited – should be capped. After the cap is reached, individuals would be eligible for full state support for care costs. This cap should be between £25,000 and £50,000. We consider that £35,000 is the most appropriate and fair figure.
- The means-tested threshold, above which people are liable for their full care costs, should be increased from £23,250 to £100,000.
- National eligibility criteria and portable assessments should be introduced to ensure greater consistency.
- All those who enter adulthood with a care and support need should be eligible for free state support immediately rather than being subjected to a means test.

A new national pension scheme

Helping people save more for their retirement

More than half of workers are not aware that they could be automatically enrolled into a new national pension scheme starting in October 2012 and many are likely to be surprised when employers start taking deductions from their pay, research from HSBC has found.

The National Employment Savings Trust (NEST) is being introduced next year by the government to help people save more for their retirement.

OPTION TO OPT OUT

It will involve workers who are not already a member of a 'Recognised Workplace Pension Scheme'. Employees will be auto-enrolled by their employers and will be given the option to opt out. The employer will eventually have to pay a minimum of 3 per cent (initially this is being phased in starting from 1 per cent paid by the employer and 1 per cent by the employee) of 'qualifying (band) earnings'. The overall minimum contribution will eventually be 8 per cent and if the employer pays the minimum of 3 per cent the employee will have to pay 5 per cent (with 1 per cent of this coming from tax relief).

HSBC found that 23 per cent of people, when told about NEST, said they didn't like the idea of some of their wages being paid into the scheme.

NEW AUTO-ENROLMENT

The new auto-enrolment obligations will impact on employers of all sizes and will be phased in between 2012 and 2016. Employers will have responsibility for paying contributions into a pension – both from them and the employees – as well as communicating with staff and ensuring the pension scheme is compliant.

The hope is that these new auto-enrolment obligations will help the estimated seven million workers who are not putting money aside for their retirement to start saving for tomorrow, today.

While the NEST scheme is available to all employers, it has features that may make it suitable for some and less desirable to others. ■

National Employment Savings Trust is regulated by the Pensions Regulator.

2012
Start of new phased auto-enrolment.

3%
Minimum percentage the employer will eventually have to pay.

> "More than half of workers are not aware that they could be automatically enrolled into a new national pension scheme starting in October 2012 and many are likely to be surprised when employers start taking deductions from their pay, research from HSBC has found."

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