Bulletin

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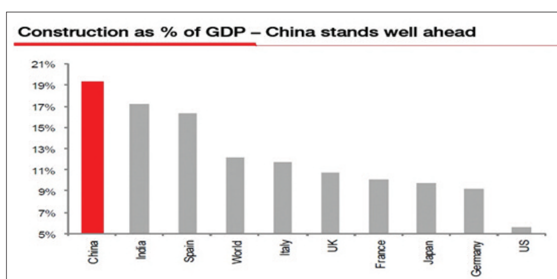
Leaders in Wealth Management

"All bubbles eventually burst, as this one... [the US housing bubble]... did.

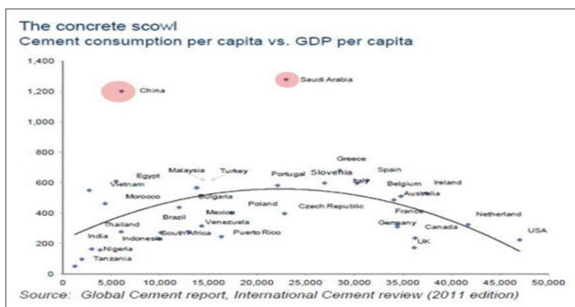
The bigger the bubble, the bigger the pop. The bigger the pop, the bigger the losses."

The US 11th Circuit Court of Appeals, September 2009

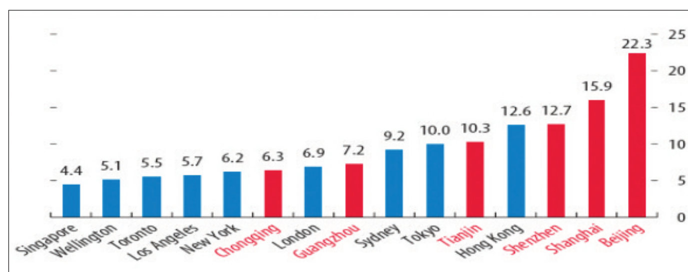
China, the second largest economy on the planet, fuelled by easy lending in the West and money printing in China, went on a mad period of residential and commercial property construction. Note this strategy brought down Spain.



Next, note China's cement consumption has been way out of normal bounds of modern economies.



Next, see 6 of the top 10 cities in the World, by house prices to local incomes, are in China.



As we believe China is undergoing a huge economic Depression, what will that do to the global economy and, therefore, investments and pensions? Clue: Some 80% of the global economy is already in Recession.

What should you do to secure your finances or help secure those of your friends, family, colleagues or (solicitor) private and trustee clients? Call me personally to discuss how we can help.

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Deciding when you want to stop work

Recent research shows that more and more people are working after they reach their state pension age (SPA).

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You might think that very few people would want to work after the date when their state pension starts to be paid – whenever that might turn out to be.

In fact, some 1.4 million people were working beyond their SPA towards the end of last year, according to the Office for National Statistics (ONS). There are several good reasons for this, and some of them could affect you.

- Most of us are living longer, more healthy lives than previous generations did and we are therefore more capable of continuing to work, especially into our 60s and early 70s.
- We need to top up our state pensions, which are far from generous; for example the basic state pension is currently up to just £107.45 a week for a single person.
- Many women keep working until their partners retire.
- Self-employed people need to keep working longer than their employed counterparts, because they generally have lower state and private pension benefits.
- Many pensions schemes are becoming less adequate and need topping up. Final salary pension schemes are fast disappearing from the private sector.
- Lacklustre performance from many investment markets has limited the growth of pension fund values.
- Annuity rates have fallen significantly over the years, and low interest rates have hit pensioners' returns from banks and building society deposits.

Working past your SPA should be a personal choice rather than a financial necessity, so having enough to fund your retirement income should be at the forefront of your planning prorities.

Estimating your eventual total retirement income can be difficult, especially if you are some way off SPA. This is where we can help. We will analyse all your potential sources of retirement income and project the likely returns, based on a variety of assumptions about earnings growth, price inflation and investment returns. We typically find that people need more retirement income, and we can then suggest options to make good the shortfall.

Why not ask for an assessment now? The alternative could be working past age 65, or 66, or 67…

A pension is a long-term investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

Did you know that one of the more controversial measures from 2012's Budget comes into force from 7 January 2013? Broadly speaking, if you or your partner has income of over £50,000, the one with the highest income will effectively be taxed on the amount of child benefit the family receives. A sliding scale applies – the total benefit is taxed away to nil by £60,000. However, in 2012/13 only the final 13 weeks of child benefit is caught. You will not notice any immediate difference to net pay, as HMRC plans to sort out matters next tax year. This could mean you start to receive self-assessment tax returns.

Year-end tax planning for your company

You should start planning now if your company's financial year end is 31 December.

We may only be three quarters of the way through this Olympic year, but it is already time to consider the finishing line. If your company's year end is 31 December, you should start thinking about what to do with your business's profits now. As usual, the ground rules have altered slightly because of tax changes.

Income tax In 2013/14 the starting point of higher rate tax (40% on earnings, 32.5% on dividends) will fall from £42,475 to £41,450. At the same time the additional rate of tax will drop from 50% to 45% (42.5% to 37.5% for dividends).

Corporation tax The small profits corporation tax rate has remained at 20% since April 2011. However, the mainstream rate dropped by 2% to 24% from 1 April 2012 and will drop to 23% next April.

Capital allowances The annual investment allowance (a 100% allowance for plant and machinery expenditure) fell from £100,000 to £25,000 from April 2012. From the same date the main writing down allowance for plant and machinery was cut from 20% to 18%.

Pensions The standard lifetime allowance, which effectively sets a ceiling on the value of retirement benefits in most instances, was cut from £1.8 million to £1.5 million on 6 April 2012. No increase is due for at least the next few years.

The combined impact of these changes is complex, so your year-end review needs to be tailored to you. There is no one-size-fits-all advice. To explore these options further, please call us to arrange a meeting.

- You may want to maximise your employer pension contributions this year, because you want to exploit carry forward of unused relief from 2009/10, which will be lost after 5 April 2013.
- If you want to extract substantial income from your company, you may wish to wait until 2013/14 and the introduction of the 45% additional rate income tax.
- Drawing dividends rather than salary to save NICs remains a wise option – if it is available to you.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Services Authority does not regulate tax advice.

Have you remembered that the national minimum wage for those aged 21 and over will rise by 11p (1.8%) to £6.19 an hour on 1 October? That translates to £216.65 for a 35-hour week or £11,266 a year. It is hardly a king's ransom, but a pay increase of 1.8% may be more than you have received over the last 12 months. Looked at another way, £217 a week is just over double the current single person's basic state pension (£107.45 a week for 2012/13). No wonder there are all those people working past their state pension age….

Tuition fees call for careful financial planning

University tuition fees in England are set to increase again next year, according to the Office for Fair Access (OFFA), which said fees for 2013 will rise to an average of £8,507 a year, slightly above the current average of £8,414.

Universities can charge tuition fees of up to £9,000 a year – around three in four institutions are planning to charge the maximum for some or all of their courses.

There are cheaper universities and parts of the UK where the cost of living is less, and Scottish students living in Scotland pay no tuition fees. But many students wanting to do full-time degree courses cannot avoid what are likely to be considerable costs.

It has been estimated that parents wanting to pay three years of tuition fees at £9,000 would need to save around £93 a month from birth in a tax-free cash ISA. If they have not started yet and the child is already ten years old, the parents would need to set aside approximately £250 a month from now on.

Cash or stocks and shares ISAs are popular choices, with equity investments more likely to produce a higher return – although that is a riskier option. Parents can also choose to set up one of the new Junior ISAs, or, if they can, continue putting money into a pre-existing Child Trust Fund. Another option is tax-exempt Friendly Society saving plans, which are long-term endowment policies.

To lift some of the financial burden of higher education, the UK Government has set up a £150 million National Scholarships Programme to sponsor loans and maintenance grants, but no one knows what will be available further down the line.

There are always going to be students who do not have the cushion of being able to study debt free and are likely to end up repaying a loan over many years. That said, repaying a student loan is not like repaying a loan from the bank. It is linked to earnings, rather than borrowings.

Graduates repay only 9% of any earnings above the threshold limit of £15,795, rising to £21,000 for loans taken out from September 2012. At the end of 30 years, if the total amount repaid fails to cover the total amount borrowed plus interest accrued, the outstanding amount will be written off.

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The value of your investment and the income from it can go down as well as up, and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Pension transfer rules: all shook up

The regulators have made some welcome changes to the rules for pension transfers.

Both the Financial Services Authority (FSA) and The Pensions Regulator (TPR) have been looking at their guidance and rules on pension transfers.

TPR has been concerned about 'incentive exercises', which often involve members of a final salary pension scheme being offered enhanced transfer values to move their benefits elsewhere. TPR says that 'A minority (and, very possibly, a small minority) of members may have personal circumstances which result in them being in a better position through accepting an offer'.

Pension scheme trustees have been told by TPR that as part of an incentive scheme, 'Fully independent and impartial financial advice should be made accessible to all members and promoted in the strongest possible terms'.

As far as that advice is concerned, the FSA has long had detailed standards, which advisers must follow in considering whether it is appropriate to transfer a pension. The spread of incentive schemes has prompted the FSA to revisit its standards and, in particular, the assumptions built into the transfer value analysis system. Some of these had become quite out of date and there was a danger that they would result in an understatement of the risks associated with a transfer.

The FSA's new transfer standards were put in place at great speed – a reflection of its concern about incentive exercises. In the FSA's words, 'This will make it less likely that an adviser will be able to recommend a transfer from a defined benefit [final salary] pension scheme to a personal pension'.

The specialist area of pension transfers can be complex and we recommend you seek qualified independent financial advice before taking any course of action.

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Falling annuity rates ahead

Men are likely to see their annuity rates start falling soon, as gender discrimination in the setting of pension annuity rates comes to an end.

Like them or loathe them, the judgments handed down by the European Court of Justice cannot be ignored. One example, which is due to take effect on 21 December 2012, is the ruling in the Belgian *Test-Achats* case that insurance companies cannot discriminate between men and women when setting their premium rates. So next year, car insurance for women is likely to cost more, while the higher-claiming men will probably pay less. The flip side of the coin is that men will lose out elsewhere.

Insurers will be unable to take gender into account when calculating individual pension annuity rates. Currently men benefit from a higher annuity rate than women of the same age, because men have shorter life expectancies. From 21 December that rate difference must disappear and all new annuities will become 'unisex'. Quite how much difference the change will make is as yet unclear, although last year a Treasury paper said that 'Male annuities could decrease by 13% per year'.

This means that if you are a man and planning to buy a pension annuity in the next few months, you have no time to lose. Some providers may start amending rates before the 21 December deadline to ease their holiday season administration issues.

Changes to charges in the offing

A new system of paying for investment and much other financial advice will be ushered in at the start of 2013. It is called adviser charging and will have an impact on the structure of many investment products in the future.

The changeover to adviser charging is an initiative of the regulator – the Financial Services Authority (FSA) – and follows a series of proposals called the retail distribution review – or RDR. Part of the RDR has also been the introduction of higher minimum qualifications for financial advisers, resulting in many advisers taking exams.

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Adviser charging will mean an end to the old system under which the insurance companies, fund managers and other product providers determined the level of commission paid to advisory firms and deduct it from the product. Of course the ultimate payer was always the client. From 1 January 2013, product providers will no longer set the commission levels; this will be solely a matter for the advisory firm and the client. And the charge will be even more transparent and on top of the cost of the product itself – not part of it.

So in many cases, the cost of products will come down and then advisory fees will be charged separately. It will be easier to see what is happening and so it will be easier to understand.

What is more, in many instances the new system could lead to overall reduced costs to the client, as advisers negotiate and choose appropriately competitive products for their clients.

The level and methods of calculating the adviser charges will vary according to the work done and the services provided. We are providing new client servicing documentation setting out the position in detail. Over the course of the coming months we will be pleased to explain this to you further and take you through the services we will be providing.

Pensions auto-enrolment arrives

The world of pensions is about to start a new era.

It is nearly eight years since the Pension Commission, set up by the previous Government, issued its first report, 'Pensions: Challenges and Choices'. One of the report's key suggestions to extend private pension provision was to introduce some form of automatic enrolment into a pension scheme for all employees.

All the main political parties accepted the idea in principle and it eventually found its way into legislation, with a target start date of October 2012. Alongside auto-enrolment, the various Pensions Acts also introduced a backstop pension scheme for employers, which changed its name along the way from National Pensions Savings Scheme (NPSS) through Personal Accounts to NEST (National Employment Savings Trust).

The coalition Government ordered an urgent review of NEST and auto-enrolment on coming to power, but subsequently decided to go ahead after making some administrative changes and extending the phasing-in period to six years.

Whether you are an employer or an employee, you could be affected by this major overhaul of pension provision from 1 October for large employers and smaller organisations affected over the following few years.

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