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Wealth Matters
Don't lose sight of your investment goals

Building a bigger pension
Reintroduction of Carry Forward rules

Investing for income
Compounding of returns for the long term

Protecting wealth
Planning for the future is not to be taken lightly

Green Money
Socially responsible investing

Flexible Drawdown
Removing the cap on the income you can take

SAVING FOR OLD AGE
UK savers face retirement savings gap

Reliable returns
Alternative complementary asset class

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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Welcome

In this issue of our magazine, you can read about topics that will help you make more of your money, from retirement provision to wealth protection to investment matters.

From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules. So anyone who wishes to roll up any unused contribution allowance may do so and take advantage in a future tax year. The facility also enables contributions in excess of the £50,000 annual allowance still to be possible (see page 18).

Planning for your future financial independence relies on selecting the right type of investments and balancing the risks you are comfortable with alongside the potential returns. Every investor is unique and complex, so on page 16 we consider why, when it comes to investments, a one-size-fits-all approach just doesn't work – there isn't a single investment strategy that will work for everyone.

Tax-efficient investments are increasingly being used to complement pensions as part of an overall retirement planning solution. The tax relief provides a reliable return and you are able to access your money after the tax qualification periods, either to reinvest in tax-efficient investments for another round of tax relief or to invest elsewhere. Read the full article on page 22.

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Inflationary pressures

Counteracting the pensioner's worst enemy

Inflation is a pensioner's worst enemy. Over time, it will reduce the value of your income unless you take measures to counteract it. With retirement often stretching to twenty to thirty years, your income should keep pace with inflation.

The State Pension and most final salary schemes will usually build in an annual increase. However, if your retirement income is from other sources, you may have to decide how best to protect yourself and your family against future inflation.

With a privately owned pension (such as a personal pension), the choice is yours. You can choose to have your pension paid at a level amount every year or you can build in an annual increase. This increase can either be a fixed amount each year of, say, 3 per cent or 5 per cent or instead you can request that your income moves in line with inflation.

The downside is that the starting income for an increasing pension will be lower than if you choose a level income. You therefore need to weigh up the benefits of both before making your final decision. ■

WE CAN HELP YOU TO MAKE THE RIGHT DECISIONS ABOUT YOUR MONEY – FOR MORE INFORMATION, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

Funding your wealth

Choosing from different sectors

There are thousands of investment funds to choose from and they are divided into different types or sectors. You can buy funds that invest in shares, corporate bonds, gilts, commodities and property among other things; they will also typically have some form of geographical focus.

The wealth of choice means you can target any theme you choose but making the selection can be a baffling process and, to complicate matters, funds are typically divided into two categories active and passive.

Around one in four funds is passive. There is no stock picking involved, the fund simply buys the shares or market represented and therefore tracks it – for example, a fund that mirrors the FTSE 100 and will deliver the same returns as that market.

An active fund on the other hand has a manager buying and selling assets, attempting to beat the market.

PLEASE CONTACT US FOR MORE INFORMATION ABOUT HOW WE CAN HELP YOU.

FINANCIAL INTELLIGENCE

Retirement income consumed by the basic costs of living

Investors buying a level annuity with a pension fund of £80,000 will spend their entire monthly income on basic living costs within seven years of retirement, according to new statistics.

Standard Life researchers have warned that many people could see their retirement income consumed by the basic costs of living as the effect of inflation eats into the money they set aside for retirement.

The FTSE 100 company's retirement team has warned that investors should seek professional financial advice or risk losing out from inflation, restricting living standards in the future.

"The cost of living is rising fast for most people in the UK, but this can be particularly acute for pensioners"

'The cost of living is rising fast for most people in the UK but this can be particularly acute for pensioners.'

Spending habits of pensioners are driven by commodities such as food and fuel bills and these inflation rates are much higher than the overall UK inflation rate. So it is crucial to consider how to protect your buying power in retirement from inflation over a long period of time, which could be 30 years or more.

The reality is that if pensioner inflation remains at around 6 per cent a year, people with a fixed income could lose almost half of their spending power within a ten-year period.

THERE ARE MANY OPTIONS TO CONSIDER AT RETIREMENT THAT COULD MINIMISE THE IMPACT OF INFLATION ON YOUR INCOME – SEEKING PROFESSIONAL FINANCIAL ADVICE IS VITAL. FOR MORE INFORMATION ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

Private sector workers

Figures show the lowest company pension levels since the 1950s

The number of private sector workers with a company pension has fallen to its lowest level since the 1950s according to figures from the Office for National Statistics (ONS). Of the total private sector workforce of 23.1m, only 3.3m – some 14 per cent - are in a company scheme. This contrasts starkly with the public sector, where almost nine in ten will receive a pension.

The ONS recently published its latest Pension Trends report, and although it did not include provisions such as stakeholder or group personal schemes, it shows that 5.4m of the UK's 6.2m public sector workers have a generous company pension - close to a record high.

The figure for the private sector has fallen to its lowest for decades. Since 1997, the proportion of private sector workers with a guaranteed defined benefit pension has dropped from 34 per cent to 11 per cent. This is the type offered to all State workers, which promises to pay a percentage of their final salary, or the average over your career, when they retire.

Joanne Segars, chief executive of the National Association of Pension Funds, warned that Britain's ageing society is on 'a collision course with its own retirement' as it fails to save enough.

She said: 'Far too many people are either choosing not to bother with their workplace pension, or are not being offered one in the first place.

'This is storing up huge problems for the future. Those relying purely on a State pension face a rude shock come retirement, and the grim prospect of their final decades spent in poverty.'

The basic state pension is currently worth a little over £100 a week, although many are not eligible to claim the full amount. The typical public sector worker enjoys a pension of £7,841 a year, or about £150 a week.

If a private sector worker happens to be in the minority that gets a company pension, the average payout is in the region of £1,300 a year - just £25 a week. ■

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.

Protecting Wealth

Planning for the future is not to be taken lightly

We all want to protect our wealth and help ensure our families are provided for when we die. However, increasingly HM Revenue & Customs (HMRC) are challenging the valuations of properties given for Inheritance Tax (IHT) purposes, according to accountants UHY Hacker Young.

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.

The taxman raised £70m in additional tax last year – an average of £24,600 extra tax per case – and are targeting beneficiaries who claim a property they've inherited is worth less than it is in order to pay less tax.

During the financial year 2010/11, 16,000 estates paid IHT. Of these, more than a fifth – 3,441 – had the valuation of the property increased, while just 800 had valuations reduced, according to HMRC figures.

REDUCING AN INHERITANCE TAX BILL

WRITE A WILL

Making a Will is the first step to reducing your IHT bill. It helps you get an idea of what your estate is worth, therefore providing a good basis to understand how much IHT planning is required.

GREAT GIVE-AWAY

You can give away cash or assets up to the value of £3,000 a year without it incurring any taxes. This can also be backdated by one year if not already used, for example, a couple could effectively gift £12,000 in the first year if not already used and then £6,000 (£3,000 each) thereafter. Parents can also give up to £5,000 to each of their children as a wedding/civil partnership gift while grandparents can give up to £2,500. Others can also contribute to loved ones' weddings/civil partnerships but are only allowed to give up to £1,000.

You can make small gifts up to £250 to as many people as you like, as long as you haven't already gifted that person in the same tax year.

If you are still working and earning an income, you are also permitted to give away any surplus amounts of your income provided that, in making these gifts, your own standard of living is not affected. You must not then access your capital (savings and investments) to live off.

SEVEN-YEAR RULE

The seven-year rule allows you to make additional tax-free gifts providing you do not pass away within the next seven years. These gifts are called 'potentially exempt transfers' (PETs) and can be anything from cash to property. However, you cannot give something away and still benefit from it, for example, you can't give away the family home and then continue to live in it unless you pay the market rent.

If you were to pass away before the seven years were up, the assets would be taxable. However, the amount would vary and depend on how close to the seven-year milestone you were. For example, if you were to die within six years, the tax bill would be less than if you passed away within a couple of months. This is known as 'taper relief'.

A MATTER OF TRUST

Placing assets into a trust in your lifetime could be a good way to decrease your IHT bill. Limited to the nil rate band, these gifts count as potentially exempt transfers. This means the same rules apply, so if you pass away before the seven years are up, IHT will be due.

It is possible for a Settlor to place assets in excess of the nil rate band in a trust. These gifts are called 'chargeable transfers' as tax is payable immediately the asset goes into the trust. However, if the Settlor dies within seven years then there could be an IHT liability to pay too.

RURAL AMBITIONS

Buying farmland is an alternative way to help reduce a potential IHT bill, as farmland qualifies for agricultural property relief of up to 100 per cent after two years of ownership. The land has to be actively worked on for 'agricultural purposes' so, unless you have rural ambitions, this will not be an option for the majority. ■

THE SOONER YOU START PLANNING, THE SMALLER A POTENTIAL FUTURE IHT BILL IS LIKELY TO BE. WITH THE CORRECT ADVICE AND PLANNING, YOU COULD CONSIDERABLY REDUCE THIS BURDEN FOR YOUR FAMILY. TO DISCUSS YOUR OPTIONS, CALL US FOR MORE HELP AND ADVICE.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

£325,000
IHT currently payable at 40% on any amount over this figure.

Retirement options

Revolutionising the way pension benefits are taken

Your pension is one of your most valuable assets but is it working as hard as it should be? The new retirement rules will revolutionise the way pension benefits are taken, making retirement more flexible.

DID YOU KNOW?

1. AGE 75 RULE ABOLISHED

There is no longer a requirement to take pension benefits by a certain age. Historically, individuals have had to set up an annuity or move into Alternatively Secured Pension (ASP) by the age of 75.

2. RETIREES CAN USE INCOME DRAWDOWN INDEFINITELY

Investors can now use income drawdown or take no income at all for as long as they want. However, tax charges on any lump sum death payments will prevent this option being used to avoid Inheritance Tax. ASP, which had a number of restrictions and limited death benefits, has been scrapped.

3. FLEXIBLE DRAWDOWN INTRODUCED

This is a new drawdown option that allows some investors to take as much income as they want from their fund in retirement. It is available to people over the age of 55 who can prove they already have a secure pension income of £20,000 a year when they first go into Flexible Drawdown. The secure income can be made up of state pension or from a pension scheme and does not need to be inflation proofed. Investment income does not count. It is not possible to make any further pension contributions to any pension scheme either in the year you move into Flexible Drawdown or any year thereafter.

4. CURRENT DRAWDOWN (NOW TO BE KNOWN AS CAPPED DRAWDOWN)

The maximum income that can be taken each year is subject to a cap that is broadly equivalent to the income available from a single life, level annuity. This is a slight reduction on the previous maximum allowed (120 per cent of annuity income). The income limits are age and sex specific, even after age 75. The maximum amount will be reviewed every three years (previously every five years). Reviews that take place after age 75 will be carried out annually. There is no minimum income, even after age 75.

5. CHANGES TO DEATH BENEFITS AND TAX CHARGES

If the pension member dies while the pension fund is in either form of drawdown, or after the age of 75, all the remaining fund can be used to provide an income for a spouse or dependant. Alternatively, it can be passed on to a beneficiary of their choice as a lump sum, subject to a 55 per cent tax charge (or nil charge if paid to a charity). The previous tax charges were up to 82 per cent on lump sums paid after age 75.

6. RULES FOR THOSE ALREADY IN DRAWDOWN

Individuals who are already in drawdown will not be immediately subject to the new requirements; however, transitional rules apply. They will apply until the next review date when the income limits and review periods change.

7. 25 PER CENT TAX-FREE CASH

The ability for most people to take up to a quarter of the pension fund as tax-free cash is still available when the individual sets up an annuity or goes into income drawdown, even if they take no income.

8. ANNUITIES

Annuities themselves have not been changed; however, it is now possible to buy an annuity at any age after 55. An annuity will still be the option of choice for most retiring investors because, unlike drawdown, it provides a secure income for life. Annuities are to be used to secure the minimum income requirement of £20,000 to allow investors to then use the rest of their pension to go into Flexible Drawdown. ■

A drawdown pension, using income withdrawal or using short term annuities, is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

Bear in mind that a pension is a long-term investment. Your eventual income will depend on the size of fund at retirement, future interest rates, and tax legislation.

25%
The maximum amount you can take tax-free from a pension fund.

55
The age the new drawdown option is available.

Drawing on a state retirement income

Nearly a quarter of the UK population is currently over the state pension age

Nearly a quarter of the UK population is currently over the state pension age, according to United Nations figures. The same analysis predicts this will rise to almost 30 per cent by 2030. Even as the Government reacts to this demography by raising the age at which people can draw on a state retirement income, this presents serious problems for a population in which many already cannot live comfortably in old age.

As it stands the Government has pledged to raise this from 60 for women and 65 for men to 66 for both by April 2020, with an unspecified timetable to raise this to 68 in future.

HIGHEST STATE PENSION

The highest state pension available to individuals is just £102.15 per week. Recently the Department for Work & Pensions (DWP) announced a consultation on increasing the state pension to £140 per week, while doing away with the means tested element of the supplementary benefits, with draft legislation on the issue expected later this year.

The cost to the taxpayer of this provision – £4 billion by next year according to the DWP – limits Government in its ability to raise provision beyond inflation.

Meanwhile, the ageing population will prove increasingly expensive. Yet the split in total UK retirement income between private savings and public pension benefits is approximately 50/50, according to statistics from think tank the Organisation for Economic Co-operation and Development.

For the 12 million healthy UK adults of economically productive age currently making no contributions to a private pension or long term savings product, maintaining an acceptable living standard to the end of their lives is further compounded by how long that figure is likely to become.

LIFE EXPECTANCY

Current Office of National Statistics figures have men living for 78 and women 84 years on average, with these predicted to rise to 85 and 89 years old respectively. Club Vita, which provided specialist life expectancy research to pension schemes, claims 80,000 UK citizens will live to 100 by 2033.

The easiest way for many to access a private pension is through their employers. Most large companies offer a workplace scheme. Furthermore, the Government is set to make this provision compulsory for all firms by 2017, with some automatically enrolling staff from 2012.

This will be complemented by a state managed defined contribution (DC) pension scheme called the National Employment Savings Trust (Nest). In DC arrangements workers pay a percentage of their salary into a fund, to which the employer can pay an additional sum.

This is invested in a range of assets – mostly stock markets – until the saver retires, at which point they cash in the accumulated pot and use it to buy an annuity, guaranteeing them an annual income for the rest of their lives.

NEST PENSION SCHEME

Companies can choose to take on 'Nest' as their pension scheme, set up a different scheme with a private provider or maintain their existing schemes if they have one, but all staff have to be enrolled in such a scheme and only withdrawn at their own request, which in turn must be within three months of joining.

In the latter of those three scenarios, the employer must pay the equivalent of a minimum of 3 per cent of the scheme members' annual salary.

Workers under 22 years old and/or earning less than the minimum tax paying wage (currently £7,475 per year) are exempt from this change in the law. Certain workplaces – the vast majority in the public sector – will still offer staff a defined benefit (DB) pension scheme.

As with DC pensions, employers and employees will pay into a pot, but the employer guarantees an annual income, post retirement, based on a percentage of the employee's salary at retirement (or occasionally, the average salary during their time with that employer).

GUARANTEEING BENEFITS

The cost of guaranteeing these benefits for an ever longer living population has made almost all private sector firms still offering DB drop it for new joiners, and the Government has commissioned an ongoing review aimed at reducing the cost of DB schemes in the public sector.

People who move jobs can transfer any savings they have built up in a DC workplace pension to their new employers scheme (assuming they have one), and money can also be transferred between different personal pensions.

Personal or individual pensions are DC schemes in which people pay into funds independent of their employers, managed by insurance companies, and again buy an annuity at retirement. ■

> As it stands the Government has pledged to raise the state retiremnt age from 60 for women and 65 for men to 66 for both by April 2020, with an unspecified timetable to raise this to 68 in future.

£102.15
The highest weekly state pension available to individuals.

80,000
The number of UK citizens who will live to 100 by 2033.

THE SUPPORTIVE SANDWICH GENERATION

Taking steps earlier in life is the key

The latest evidence of how the so-called 'sandwich generation' – is having to support both their own children and their parents has been published following research by Audley. The survey found 40 per cent are looking after their ageing parents on a daily basis and 12 per cent are supplementing their parent's income.

In addition two out of five grown up children are providing daily care for their elderly parents as they are unable to cover the cost of care fees, it has been revealed.

The additional responsibilities are having a significant impact on the lives of the sandwich generation, with a third claiming their health is deteriorating as a consequence of having to care for their parents and an equal number saying relationships with their own spouses and children are suffering.

Without preparing for lifestyle and health changes, the elderly will increasingly have decisions made for them, unable to maintain the life they once led. By taking steps earlier in life to downsize and live in a safer, more suitable environment, individuals can lessen the physical and emotional strains they place on family members and maintain their independence and health for longer.

Index-linked bonds

Beat rising inflation with tax-efficient savings

Savers looking to beat rising inflation have been given a boost by National Savings & Investments bringing back its popular index-linked bond.

The five-year certificates, launched on 12 May, pay an interest rate that will stay 0.5% ahead of the retail prices index (RPI), and the savings income is tax-free.

These index-linked certificates are always extremely popular, particularly with the elderly who rely on their savings in retirement and can't afford to see their value eaten away by inflation.

PROTECT YOUR CASH

These bonds guarantee to protect your cash against price rises across the economy. First, the bonds are tax-free because they're issued by the Government's savings arm. Second, they pay the annual rate of inflation and then an average of 0.5 percentage points on top each year. Traditionally, however, the NS&I bonds paid 1% on top of inflation.

The measure used for calculating your interest is the Retail Prices Index (RPI). This is usually the higher of the Government's two main inflation indices. The other you'll hear a lot about is the Consumer Prices Index (CPI). CPI has averaged 0.87 percentage points lower than RPI since its official launch in 1997. The Bank of England seems confident that inflation will fall back in 'early 2012'.

GETTING THE FULL RETURN

For those who need access to their cash before the five-year term is up, you must wait at least a year, otherwise you'll lose all your interest. NS&I add interest to your account on each anniversary of purchase. For example, if you picked up the certificates today (12 May), your interest would be added on 12 May 2012 using the RPI rate from two months previous (March 2012). You can withdraw the cash after this date and get the full return.

Access between anniversary dates gets you the most recent anniversary value 'plus any positive index-linking and fixed interest for each complete month since then,' NS&I say.

It's wise to leave the money in the account if you can, because you'll get a compound interest effect, for example earning interest on your interest each year. Also worth noting is that if RPI turns negative, you don't lose any money.

It's always advisable not to put all your eggs in one basket. Spread your cash for safety of return. Consider utilising a cash ISA and/or stocks and shares ISA alongside the bonds to hedge your bets in case inflation falls back. ■

Flexible Drawdown

Removing the cap on the income you can take

After years of saving into your pension fund, you've now decided you want to retire and are overwhelmed by the retirement options available. We can work with you to choose the right strategy in order for you to enjoy your retirement years.

If appropriate to your particular situation, one option you may wish to consider is Flexible Drawdown. Perhaps the most radical aspect of the new income drawdown rules that were introduced from 6 April 2011 is that, under Flexible Drawdown, there is no limit on the amount of income that you can draw each year.

The usual tax-free lump sum is allowed but any other withdrawals taken by you are taxed as income in the tax year they are paid. If you become a non-UK resident while in Flexible Drawdown, any income drawn when non-resident will be subject to UK tax if you return to the UK within five tax years of taking it.

As the name suggests, this option is much more flexible than income drawdown. Qualifying for this option removes the cap on the income you can take.

You can draw as much income as you like when you like. However, Flexible Drawdown will not be available to everyone and there are certain criteria that must be met before you can choose it.

GIVING THOSE WITH VERY LARGE FUNDS MORE FLEXIBILITY

- Those over the age of 55 who can show that they have secured pension income in excess of £20,000 per annum will be able to drawdown an unlimited amount from their pension funds each year, but this will be treated as income for tax purposes.
- The income included for satisfying the new Minimum Income Requirement (MIR) includes the basic state pension, additional state pension, level annuity income and scheme pensions. Please note income from purchased life annuities and drawdown arrangements do not count.
- The lump sum required to purchase an annuity that will satisfy the MIR, assuming the full state pension is payable, will be about £200,000. This means that this option is available only to a small number of wealthy individuals. ■

FOR INFORMATION ABOUT THIS AND THE OTHER SERVICES WE OFFER, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

A drawdown pension, using income withdrawal or short-term annuities, is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

£20,000
The minimum amount of secured pension income to be able to drawdown an unlimited amount each year.

6 APRIL 2011
New income drawdown rules introduced.

NEWS IN BRIEF

SAVING FOR OLD AGE

UK savers face retirement savings gap

The Chartered Insurance Institute (CII) has looked at the cost of living post-work and found that average incomes achieved by retirees are insufficient. UK savers face a retirement savings gap of £9 trillion due to increasing levels of debt, the cost of long-term care and insufficient pension savings.

The CII has used existing data produced by the Organisation for Economic Co-operation and Development (OECD) to calculate the shortfall in savings needed to cover the cost of living in old age. It shows that, on average, pensioners achieve only 30 per cent of their pre-retirement salary as income during retirement, significantly less than the 70 per cent the OECD believes is necessary to live adequately.

This assumption does not factor in the cost of long-term care and paying back of debt, so the CII has tried to show the difference between what people are actually saving and what they need to save to live comfortably and cover these additional costs.

In the latest annual Scottish Widows UK pension report only 51 per cent of British workers are saving adequately for old age. This seventh annual Scottish Widows pension report, based on interviews with 5,200 adults, shows there is 'widespread and ingrained inertia' across the country.

Commenting, Pensions Minister Steve Webb said: 'The next generation will face a different world with increasing life expectancy, the decline in final salary schemes and lower annuity rates. They are going to have to take greater responsibility for saving for their retirement.'

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.

Green Money

Socially responsible investing

If you are an investor concerned about global warming and other environmental issues, how can you save and invest ethically? Ethical investments cover a multitude of different strategies, with the terms 'ethical investment' and 'socially responsible investment' (SRI) often being used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria).'

NEGATIVE SCREENING

Funds that use negative screening, known as 'dark green' funds, exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical but this typically includes gambling, tobacco, alcohol and arms manufacture. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

POSITIVE SCREENING

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

ENGAGEMENT FUNDS

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

This process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

GOOD PROSPECTS

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others. ■

THE PERFORMANCE OF ETHICAL FUNDS COMPARES WELL WITH THOSE THAT HAVE NO ETHICAL SCREENING. THERE IS NO REASON OR EVIDENCE TO SUGGEST THAT INVESTING YOUR MONEY ETHICALLY WILL ADVERSELY AFFECT THE PERFORMANCE OF YOUR INVESTMENTS. TO FIND OUT MORE OR TO DISCUSS YOUR ETHICAL OPTIONS, PLEASE CONTACT US.

The value of your investment can go down as well as up and you may not get back the full amount invested.

Wealth matters

Don't lose sight of your investment goals

Planning for your future financial independence relies on selecting the right type of investments and balancing the risks you are comfortable with alongside the potential returns. Every investor is unique and complex, so when it comes to investments, a one-size-fits-all approach just doesn't work – there isn't a single investment strategy that will work for everyone.

Whatever your investment objectives are for the long term, initially it is prudent to set aside short-term savings to meet any future emergencies. This should be held where you can access your money easily. Your investment goals and attitude to risk for return are personal and may change over time, particularly as you near retirement.

LOOKING AHEAD

There are, of course, times in our lives when saving money may be difficult (for example, when studying or bringing up children) but it is important to look ahead. Saving little by little out of your income or investing lump sums when you can all helps. Holding savings for a long time means they can grow in value as well.

There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk (how much risk you are prepared to take) and what you are trying to achieve with your investments.

THE QUESTIONS YOU NEED TO ASK

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide – capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (by using a pooled investment, for example)?

If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).

What are the tax benefit implications, what tax will you pay and can you reduce it?

FUTURE PLANNING

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want an investment to provide extra income. So having decided that you are in a position to invest, the next thing to consider is: 'What am I investing for?' Your answer will help you to choose the most suitable type of investment for you. If you have a particular goal, you will need to think about how much you can afford and how long it might take you to achieve your goal.

You may have a lump sum to invest that you would like to see grow or from which you wish to draw an income. Equally, you may decide to invest in instalments (for example, on a monthly basis) with a view to building up a lump sum.

INVESTMENT GOALS

Your investment goals should determine your investment plan, and the time question 'How long have I got before I need to spend the money?' is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term and this can be very difficult to predict, but long term they can be expected to deliver better returns. The same is true to a lesser extent of bonds.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

MIX OF ASSETS

As the length of time you have shortens, you can change your total risk by adjusting the 'asset mix' of your investments – for example, by gradually moving from share investments into bonds and cash. It is often possible to choose an option to 'lifestyle' your investments, which means that your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called 'compounding'.

The value of your investment can go down as well as up and you may not get back the full amount invested. ■

NO MATTER WHAT YOUR INVESTMENT GOALS ARE AND HOW MUCH YOU WISH TO INVEST, WE CAN WORK WITH YOU TO DEVELOP THE BEST PORTFOLIOS FOR YOU. TO DISCUSS YOUR PARTICULAR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

> Every investor is unique and complex, so when it comes to investments, a one-size-fits-all approach just doesn't work – there isn't a single investment strategy that will work for everyone.

YOUR OPTIONS

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

FUTURE PLANNING

Your investment goals should determine your investment plan, and the time question 'How long have I got before I need to spend the money?'

Building a bigger pension

Reintroduction of Carry Forward rules

From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules.

INCREASING PENSION CONTRIBUTIONS

The principle of Carry Forward allows you to increase pension contributions by using unused annual allowances from the previous three tax years. The facility therefore enables contributions in excess of the £50,000 annual allowance still to be possible.

The Carry Forward facility applies on a rolling three-year basis, so for 2011/12 the three previous tax years will be 2008/09, 2009/10 and 2010/11 – with any unused allowances from the earliest year being used up first. So, for example, if you made no contributions to a pension in the 2008/09, 2009/10 and 2010/11 tax years, you could contribute up to £200,000 in the 2011/12 tax year.

Even though tax years 2008/09 to 2010/11 inclusive are before the rule changes, the calculation of contribution allowances is based on the new rules, so:

- the annual allowance is £50,000
- any defined benefit pension plans and cash balance accruals are based on a factor of 16 instead of 10, with some inflation proofing
- in a year when retirement benefits are taken, any pension contributions made will be assessed against the annual allowance

QUALIFYING CONTRIBUTIONS

To qualify, you can Carry Forward any unused annual allowances from a tax year in which you are a member of, or join, a registered pension scheme. You do not need to have a Pension Input Period (PIP) ending in that tax year, or have to contribute to the pension scheme in each tax year. Only unused annual allowances from PIPs ending in the previous three tax years can be carried forward.

ANNUAL ALLOWANCE

The annual allowance that applies to pension contributions is based upon the tax year in which the PIP ends. Each arrangement in a scheme can have its own PIP; however, the scheme may set the PIP dates or the member can nominate them.

Where the PIP dates are not nominated by the client, the PIP runs from the first contribution date to the end of the tax year in which it started – for example, if the first contribution was made on 7 May 2011, then the first PIP runs from 7 May 2011 to 5 April 2012.

Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

Where it is possible to nominate a different end date for a PIP, you need to notify the scheme administrator in advance. Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

EXTRA OPPORTUNITIES

Adjusting the PIP dates within the rules can provide extra Carry Forward opportunities.

You could amend the PIP dates provided that:

- the first PIP can end in the same tax year that it started
- the first PIP must end prior to the anniversary of payment and can be in the same tax year that it started
- the second and subsequent PIPs must end in the tax year after the tax year the previous PIP ended
- there can be only one PIP ending in each tax year

Levels and bases of relief's from taxation are subject to change and their value depends on the individuals circumstances of the investor. 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. ■

IF YOU WISH TO DISCUSS OR HAVE ANY FURTHER QUESTIONS REGARDING CARRY FORWARD AND PENSION CONTRIBUTIONS, PLEASE CONTACT US.

"The principle of Carry Forward allows you to increase pension contributions by using unused annual allowances from the previous three tax years. The facility therefore enables contributions in excess of the £50,000 annual allowance still to be possible."

£50,000

Annual allowance for pension contributions.

3 YEARS

The number of previous tax years you can increase pension contributions utilising Carry Forward.

Taking more control over your pension fund investment decisions

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss.

MORE ACCESSIBLITY

A SIPP is a personal pension wrapper that offers individuals greater freedom of choice than conventional personal pensions. However, they are more complex than conventional products and it is essential you seek expert professional advice.

SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.

Individuals have to appoint a trustee to oversee the operation of the SIPP but, having done that, the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

THOUSANDS OF FUNDS

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

TAX BENEFITS

There are significant tax benefits. The Government contributes 20 per cent of every gross contribution you pay – meaning that a £1,000 investment in your SIPP costs you just £800. If you are a higher or additional rate taxpayer, the tax benefits could be even greater. In the above example, higher rate (40 per cent) taxpayers could claim back as much as

> A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

a further £200 via their tax return. Additional rate (50 per cent) taxpayers could claim back as much as a further £300.

OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also 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.

The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.

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. ■

WE CAN WORK WITH YOU TO DEVELOP A STRATEGY TO HELP YOU BUILD UP THE FUNDS YOU'LL NEED TO ENJOY YOUR RETIREMENT YEARS TO THE FULL. FOR INFORMATION OR TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

DISCOVER MORE

Taking the right steps to making adequate provision for your future

As your life changes, you'll have different protection requirements. That's where we can help. Your financial planning isn't complete until you assess and address your protection needs. It is important that in committing yourself to any form of protection that you take into account the affordability, long term, and therefore the sustainability of the policy.

For many of us, our main concern in life is our family – but could your family support their lifestyle if anything happened to you?

5 REASONS TO PROTECT YOUR FINANCIAL PLAN

- You're diagnosed with a critical illness
- You suffer an accident or illness and are unable to work
- You lose your job
- You want to be treated privately
- You die prematurely

UNDERSTANDING THE PRODUCTS THAT ARE AVAILABLE AND THE SORT OF FINANCIAL ASSISTANCE THEY OFFER IS REASSURINGLY COMFORTING. WE CAN HELP YOU TO MAKE THE RIGHT PROTECTION DECISIONS FOR YOU AND YOUR FAMILY – PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

Reliable returns

Alternative complementary asset class

Tax-efficient investments are increasingly being used to complement pensions as part of an overall retirement planning solution. The tax relief provides a reliable return and you are able to access your money after the tax qualification periods, either to reinvest in tax-efficient investments for another round of tax relief, or to invest elsewhere.

Appropriate investors can choose to reinvest the upfront tax relief, either into a Venture Capital Trust (VCT) or Enterprise Investment Scheme (EIS) for further income tax relief or directly into a pension. The net effect is a significant increase to the investor's retirement fund based upon tax relief rather than stock market performance. As with pensions, you can, if appropriate to your particular situation, make investments into VCTs or EISs over many years, providing diversification and access as each investment period is reached.

There are other factors that point to VCT and EIS solutions being useful tools for retirement planning and as part of an overall investment portfolio. Significantly, pension investments are largely subject to income tax as they are drawn down, whereas VCT and EIS solutions are not. Also, while VCT and EIS investments have to be held for a fixed period to qualify for tax relief, after the holding period, you have additional flexibility when compared to pensions.

However, it is crucial not just to consider them in isolation, but as a valid and important part of an overall portfolio. Even compared to Individual Savings Accounts (ISAs) – the mainstay of tax-efficient investing – they offer generous tax reliefs because, not only is growth tax-free, income tax relief is available on investing.

They are often rated higher risk because they invest in smaller unquoted stocks and due to a lack of liquidity – indeed they have to be held for a set period to retain the tax reliefs. Therefore it is vital that they are appropriately weighted within your portfolio.

They also offer an investment solution that is largely uncorrelated to the markets, and therefore a complementary asset class to more traditional pension investments.

Information is based on our current understanding of taxation, legislation and regulations. Any levels and bases of, and tax rules and reliefs from taxation are subject to change.

These investments are NOT suitable for everyone as these are higher risk investments. The investor could lose some or all of their investment. You should seek professional specialist tax and financial advice before taking any course of action. ■

VENTURE CAPITAL TRUST

Investors must retain their VCT shares for five years to retain the up-front income tax relief. Please remember that the tax rules and regulations governing VCTs are subject to change. The tax reliefs available to certain investors in VCTs are dependent on individual circumstances as well as the VCT maintaining HM Revenue & Customs approval. If this approval is withdrawn, a VCT will lose its status and all tax reliefs are likely to be cancelled.

The share price of a VCT may not reflect its net asset value. There is only a limited secondary market for shares in VCTs which may render such shares difficult to sell as they may not be readily marketable. VCTs invest in unquoted and AIM-quoted companies which are therefore smaller and carry a higher level of risk than shares which are listed on the main market of the London Stock Exchange. The shares of VCT investee companies may not be readily marketable. An investment in a VCT should be regarded as a long-term investment.

> As with pensions, you can, if appropriate to your particular situation, make investments into VCTs or EISs over many years, providing diversification and access as each investment period is reached.

3 YEARS
Minimum number of years in order to retain the upfront income tax relief for an EIS.

TAX-EFFICIENT
Selecting complimentary investments you can use as part of an overall retirement planning solution.

ENTERPRISE INVESTMENT SCHEMES

Investments into an EIS must be retained for a minimum of three years in order to retain the upfront income tax relief. Investments made into EIS qualifying companies, because they are in unquoted companies, are likely to be higher risk than securities listed on the main market of the London Stock Exchange. Investments in shares in unquoted companies are not readily marketable and the timing of any share sales and other such realisation cannot be predicted or controlled.

A partial withdrawal of an investment in an approved EIS fund is not permitted. Tax rules and regulations are subject to change, and depend on personal circumstances. Please be aware that investments within an EIS may cease to qualify. In this case, the relief available on that particular investment will be lost.

Investing for income

Compounding of returns for the long term

If you are an income seeker, frozen interest rates at historic lows mean real losses for many savers in bank and building society deposits which fail to match inflation.

The most popular forms of income investment are bonds (which are also known as 'fixed interest' investments) and cash, both of which pay a regular, consistent rate of interest either annually, twice a year or four times a year. You can also obtain an income from shares in the form of dividends, and many equity funds are set up solely with the aim of generating a stable income. Importantly equity income funds often aim to achieve not only stability, but an increasing income in the long term.

Income stocks are most usually found in solid industries with established companies that generate good cash flow. They have little need to reinvest their profits to help grow the business or fund research and development of new products and are therefore able to pay sizeable dividends back to their investors. Examples of traditional income-generating companies would include utilities such as oil and gas, telephone companies, banks and insurance companies.

You should remember that these investments do not include the same security of capital which is afforded with a deposit account.

10 INCOME INVESTING TIPS

1. Sustainable longterm dividend growth – Investing in businesses when the growth potential is not reflected in the valuation of their shares not only reduces the risk of losing money, it increases the upside opportunity.

2. Inflation matters – Always bear in mind the detrimental effect of inflation. Corporate and Government bonds offer higher yields than cash but returns can be eroded by inflation. Investment in property or equities provides a vehicle to help achieve an income that rises to keep pace with inflation.

3. Consider international diversification – A small number of UK companies account for some 40 per cent of UK dividend payouts. This compares with over 100 companies in the US, for example, that provide the opportunity to increase the longevity of dividend growth.

4. Patience is a virtue – Investing for income is all about the compounding of returns for the long term. As a general rule, those businesses best placed to offer this demonstrate consistent returns on invested capital and visible earnings streams.

5. Reliability is the key – Select sectors of the equity market that do not depend on strong economic growth to deliver attractive returns to investors.

6. High and growing free cash flow – Look for companies with money left over after all capital expenditure, as this is the stream out of which rising dividends are paid. The larger the free cash flow relative to the dividend payout the better.

7. Dividend growth – In the short term, share prices are buffeted by all sorts of influences, but over longer time periods fundamentals have the opportunity to shine through. Dividend growth is the key determinant of long-term share price movements – the rest is sentiment.

8. Cautious approach – Profits and dividends of utility companies are at the whim of the regulator. Be cautious of companies that pay a high dividend because they have gone ex-growth – such a position is not usually sustainable indefinitely.

9. Investment diversification – The first rule of investment is often said to be 'spread risk'. Diminishing risk is particularly important for income-seekers who cannot afford to lose capital.

10. Tax-efficiency – Increase your net income by using an ISA (Individual Savings Account). ISA income is free of taxation, thereby potentially improving the amount of income you actually receive. ISAs are also free from capital gains tax, allowing you to switch funds or cash in without a tax charge. ■

INVESTING FOR INCOME IS THE ULTIMATE GOAL FOR MANY, BUT KNOWING THE RIGHT PATH TO TAKE TO ACHIEVE THIS CAN BE COMPLEX, AND IT CAN BE VERY HARD TO HAVE THE CONFIDENCE TO MAKE BIG DECISIONS ABOUT YOUR PERSONAL ASSETS WITHOUT A SECOND OPINION. TO FIND OUT HOW WE COULD HELP YOU, 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.

40%

Small number of UK companies accounting for UK dividend payouts.

THE BIG SQUEEZE

More families raiding their rainy day emergency savings

High levels of inflation in Britain have made it tough for families to continue a 'normal' life without cut-backs, with more families raiding their rainy day emergency savings to cope with the rising cost of living, new research shows.

Despite the re-launch of National Savings & Investment's popular index-link certificates - which promise to keep pace with the cost of living – just 10 per cent of households saved more than usual.

Since mid-May, one in five households has also taken on more debt to cope with falling incomes and increasing prices, the research by economists at Markit found.

Britain faces the biggest squeeze on living standards since the 1870s, according to Roger Bootle, the former government adviser and economist at Deloitte. The gloomy prognosis is not what the doctor ordered after a tough few months for British households.

Some 36 per cent of households in Markit's Household Finance Index (HFI) said they'd experienced deterioration in their finances over the past month, while 22 per cent also felt less secure in their jobs.

Tim Moore, senior economist at Markit says: 'The grim figures show household finances deteriorating at the fastest pace since early 2009, with people eroding their savings and taking on more debt to finance strong rises in living costs, as income from employment continued to fall in June.'

Moore added that inflation may yet be held back by job fears and a lack of serious wage rises. But most Britons are deeply concerned. A huge 83 per cent of those surveyed expect inflation to push their cost of living up further in coming months.

The Bank of England is responsible for controlling inflation using its base rate. A higher base rate is supposed to hold back inflation – a lower base rate is supposed to stimulate more economic activity and thus a rise in inflation.

The OECD has said the Bank of England must start to raise interest rates this year to avoid an uncontrolled inflationary spiral.

Corporate bonds

Raising money for businesses

Corporate bonds are issued as a way of raising money for businesses – it's essentially a certificate of debt issued by major companies. Whilst it can be difficult to buy individual bonds, investing in a Corporate Bond Fund will allow you to invest in a wide range of bonds that can maximise your chances of a good return.

When you buy bonds you are lending money to a company in exchange for an IOU. The IOU has a term and at maturity (typically five or ten years) the sum invested is returned in full.

The value of the bonds usually depends on the stock market, meaning there is a risk you may not get back as much capital or interest as you hoped. Due to the greater possibility of default, an investment in corporate bonds is generally less secure than an investment in Government bonds.

The bond has a coupon - the amount of interest paid, say 5 per cent. As long as you hold that bond you are paid that coupon every year and if you keep it to maturity you will get your capital back. Crucially, the coupon is a fixed percentage of the cover price of the bond. So if you buy a £10,000 ten year bond with a 5 per cent return, you will receive £500 a year in interest, and after ten years you will get your £10,000 back.

This is not so different from a fixed-rate savings account or savings bond, except your bond is not covered by the Financial Services Compensation Scheme £85,000 individual savings protection cover.

DIFFERENCE IN FLEXIBILITY

The key difference in flexibility between a corporate bond and fixed rate savings is that during the, say, ten year lifetime, the market-traded corporate bond can be bought and sold and its price will change according to the market. So you don't have to wait ten years to sell the bond - you could sell it at any point.

But between its issue and maturity date the bond's price will rise and fall and at any given moment it may be worth less than you paid for it, perhaps you would only get £95 for every £100 you invested. On the other hand it may be worth more and you will be able to make a capital gain on the investment as well.

Typically retail investors have bought corporate bonds through funds. These invest in a number of different firms and help spread risk accordingly, you will end up paying fund manager fees though.

The corporate bond fund value depends on its varied holdings and dealings. Buy in as interest rates are rising and the value of the bonds it holds may fall and so will your holding in the fund.

By comparison if you just buy a corporate bond from one individual firm you are putting all your eggs in one basket and not spreading risk, but you will also know that if you hold it to maturity (and the firm doesn't go bust) you will get your money back.

The return a company has to offer on corporate bonds depends on a number of factors – current interest rates, whether they are expected to rise, and crucially how stable that company is seen as.

Some smaller companies may offer corporate bonds paying much larger returns, sometimes nicknamed 'junk bonds', this return has to be higher due to the heightened risk of going bust – so investors should be cautious as to which companies they feel are stable enough to pay out.

WHAT'S THE APPEAL?

With interest rates at historic lows and saving accounts at low unappealing rates, sticking cash in a company bond can be seen as a solid investment. ■

£85,000

Financial Services Compensation Scheme individual savings protection cover.

What type of investments do you require?

Being better prepared for whatever economic ups and downs might be ahead of you

One of the first decisions you'll make when investing will be deciding whether you are looking to generate an income or if you would prefer to achieve growth. Investing is all about choice, and making sure that the investments you choose are the right ones to meet your personal objectives.

Growth simply means increasing the value of your investment over time, while income means you'll receive regular payments coming in. The type of investments you choose depends on whether you require capital growth for the future, income from your investment for now, or a combination of the two.

INVESTING FOR INCOME

Getting an income from your investment 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.

The most popular forms of income investment are bonds (which are also known as 'fixed income' investments) and cash. Both of which pay a regular, consistent rate of interest either annually, twice a year or four times a year. You can also obtain an income from shares in the form of dividends, and many equity funds are set up solely with the aim of generating a stable income.

Income stocks are most usually found in solid industries with established companies that generate good cash flow. They have little need to reinvest their profits to help grow the business or fund research and development of new products, and are therefore able to pay sizeable dividends back to their investors. Examples of traditional income-generating companies would include utilities such as oil and gas, telephone companies, banks and insurance companies.

INVESTING FOR GROWTH

An investment grows in value when its price increases, and you can sell it for more than you paid for it. The difference between the price you paid and the price you sell for is known as your capital gain.

Growth investments usually suit people who are willing to keep their money tied up for five years or more. The longer you leave your money invested, the greater the likelihood that you'll get a significant capital gain when you decide to sell.

Investors looking to see their assets grow over time should think about investing in the stock market, which is generally considered to be the best home for a long term investment.

Most growth stocks do not pay a dividend, instead preferring to plough the money back into the business to fund expansion, or product development. While growth stocks can be volatile in the shortterm, they can generate far greater returns over the long-term than income-focused investments.

Growth stocks are less stable than their income counterparts, because there is no guarantee that their value will continue to rise. Many areas of growth tend to be subject to changes in investor sentiment – the technology sector being the most prominent example of a growth sector that rose dramatically in value before falling back down to earth with a bump. If you decide to invest for growth you need to make sure that you are aware of the possibility that you may lose your investment if things don't go to plan.

INVESTING FOR INCOME OR GROWTH

How can you decide between growth and income investments? It all depends on your investment time frame, and what you need the investment to provide for you. If you need a regular stream of income, you should focus your portfolio on assets that will help you achieve this, such as cash and bonds that will provide a fixed income. If you have a longer investment time period, or you do not need an immediate income, you should think about a larger allocation to growth-focused investors.

Whatever your preference, if you hold a variety of investments, both growth and income, you should be better prepared for whatever economic ups and downs might be ahead of you. As your financial situation changes over time, you should be prepared to make the necessary adjustments to your investment portfolio, and switch from growth assets to income as your investment needs change. ■

One in five employees working longer hours

£58.00
Additional average monthly amount UK workers need to save for retirement.

Financial pressures faced by many UK workers

UK employees are increasingly accepting of the business argument that they need to work longer hours and accept pay freezes or even cuts in the aftermath of the recession, a survey of workers' attitudes for the Guardian suggests.

The poll of 5,002 working adults, carried out by ICM for the Guardian and financial protection insurer Unum, reveals that one in five work longer hours since the onset of the recession, with 16 per cent saying their annual salary has been reduced.

Pessimism was revealed about the likely pace of economic recovery, with almost a quarter saying they did not expect to receive a pay rise in the next three years despite soaring consumer inflation. Only one in 10 said they expected a promotion at work during the next 12 months.

72 per cent said they were happy in their jobs and only 27 per cent considered it unlikely they would still be working for their current employer in five years' time. Many also revealed support for the actions firms had taken during the recession, with only 17 per cent saying they felt their employer had not dealt well with the economic pressures of the downturn, and half agreeing that their employer was well placed to deal with the business challenges of the next 10 years.

The survey also highlights the financial pressures faced by many workers. One in three respondents said they thought they could only survive for a month or less without their salary, with half saying their savings would last a maximum of three months.

Attitudes towards retirement were also revealing. Two-thirds said they expected to retire by the age of 65, yet less than half that proportion feel they have made adequate financial provision for old age. Recent research from Scottish Widows claimed UK workers need to save an extra £58 a month on average to prepare adequately for retirement.

The trend towards acceptance of austerity measures in the workplace comes despite a recent analysis by the High Pay Commission showing how executive salaries were once again rising fast and that the pay gap between rich and poor was spiralling out of control. ■

NEST CONFIRMS FIVE PROVIDERS

Buying a retirement income product that is appropriate to your needs

The National Employment Savings Trust (NEST) - the work-based pension scheme - has confirmed the five product providers for its annuity panel.

The panel includes Canada Life, Just Retirement, Legal & General, Partnership and Reliance Mutual. Each provider - who have 10-year contracts - will commit to providing annuities on accounts from £1,500.

Canada Life and Legal & General will provide both conventional and enhanced annuities. Just Retirement and Partnership will provide enhanced retirement income annuities, while Reliance Mutual will offer enhanced income products for smokers.

Tim Jones, chief executive at NEST, said, 'Our panel will enable members to buy a retirement income product if this is appropriate to their needs, even if they have a small pot.

'Establishing a panel of high quality providers committed to NEST's requirements means we can help members meet their aspirations.'

How much retirement income will you need?

Nearly half the working population are not saving enough

Only 51 per cent of British workers are saving adequately for old age, according to the latest annual Scottish Widows pension report.

Nearly half the working population is not saving enough for retirement, and one fifth are failing to save anything at all, according to a major study on pensions.

People want, on average, an annual retirement income of £24,300 to live comfortably, down from the pre-recession figure of £27,900. Although three-quarters of those questioned understand the need to take personal responsibility for their future, only 51 per cent save adequately for their old age. This drops to around 25 per cent when those with a final salary pension are excluded.

INGRAINED INERTIA

The seventh annual Scottish Widows UK pension report, based on interviews with 5,200 adults, shows there is "widespread and ingrained inertia" across the country, with savings levels remaining broadly consistent during the past five years, regardless of the economic downturn.

The Scottish Widows average savings ratio – which tracks the percentage of income being saved for retirement by UK workers not expecting to get their main retirement income from a final salary pension – remains at just over 9 per cent. This is a 3 per cent shortfall on the 12 per cent the insurer believes people should be saving to achieve a comfortable retirement.

Despite recent moves to abolish the default retirement age (the minimum age at which employers could force staff to retire) and raise the state pension age, the average age people would like to retire at remains the same as last year at 61 years and eight months. Only one in five said they would be happy to carry on working until the age of 70.

MAKE UP THE SHORTFALL

Ian Naismith of Scottish Widows said: "Put simply, people need to save an extra £58 per month on average to prepare adequately for retirement and make up the shortfall we are seeing currently. That is roughly the cost of a cup of coffee every day.

"Even though for many this is realistic, and is in under the average £97.10 per month people say they can afford, we appreciate the difficulty in setting aside extra money. It's about breaking through that inertia. And for some the amount that needs to be saved will be higher but it's about taking small steps, getting on to the savings ladder and, more importantly, staying on it. Much higher saving levels are needed to get towards the average £24,300 a year people aspire to. The message is that everyone should be putting aside as much as they can afford for their retirement." ■

£24,300

Average annual retirement income people want to live comfortably.

When will you claim your state pension benefits?

New rules mean much more dramatic rises than had been expected

For many years the age at which you can claim your state pension benefits has been 65 for men and 60 for women. But the previous Labour Government set out plans, based on recommendations from Lord Turner, to steadily increase the state pension age to 68 for both men and women over the next four decades.

In May 2010, the new coalition Government initially signalled its intent to speed up the process, bringing forward the first rise to 66 for men from 2026 to 2016.

In the end, the Comprehensive Spending Review in October 2010 settled on a less radical option, confirming the rise to 66 for both men and women would come by 2020.

However, the Government said it will have to rise even higher in following years. This could see many Britons working today wait until age 68 or even 70 before they get their state pension.

NEW RULES

For women, the new rules mean much more dramatic rises than had been expected. The women's state pension age will now move to 65 by 2018 and then increase to 66 (same as men) by 2020.

The previous Labour Government's policy had been to raise the state pension age to 66 by 2026 and then incrementally to 68 by 2046. Retirement was due to equalise for men and women at 65 by 2020, rise to 66 between 2024 and 2026, 67 between 2034 and 2036, and 68 between 2044 and 2046.

LIFE EXPECTANCY

In the March 2011 Budget, the Government also revealed plans to link the state pension age to life expectancy in the future. If the pension age rose from now in line with the change in life expectancy over the past three decades (since 1981), someone born in 1970 would have to wait until age 71.

A fresh-faced twenty-something starting out in the world of work today could see their state pension age reach 75. And a seventeen-year-old A-Level student would not be able to retire until 2071 - when they'll be 77. (All figures Standard Life estimates).

The pension age for both men and women will rise to 66 by 2020 - much sooner than the 2026 target set by Labour. Rises to 68 are expected to be announced soon, with age 70 on the horizon. The previous reforms would have increased pension ages gradually, by two years every decade.

DECISIONS, DECISIONS

When you reach the milestone of the state pension age, you essentially have three choices.

- Cease your working life and receive your state pension
- Continue to work and receive your state pension as well
- Carry on working and hold off claiming your state pension

When you do eventually decide to take your state pension, you can choose to receive either extra state pension for the rest of your life, or receive a one-off, taxable lump-sum payment, equivalent to the benefits you put off claiming plus interest - as well as your regular weekly state pension.

In addition, you can also choose to stop claiming it after having claimed it for a period. And remember, if you carry on working after state pension age, you don't have to carry on paying National Insurance contributions (NICs). ■

68
The state pension age steadily increasing for both men and women over the next four decades.

71
The age someone born in 1970 would have to wait until they could retire.

The critical factor

How on earth am I going to keep everything going?

When broadcaster Danny Baker was diagnosed with throat cancer, it was not the prospect of death that terrified him, but the idea that he would not be able to support his family financially while he received treatment, he recently told the Telegraph newspaper.

"I thought, 'how on earth am I going to keep everything going for six or seven months without any money?' In the end, I did the only thing I could do – I rang Chris Evans and said, 'You're going to have to give me 30 grand.' And Chris did it in a heartbeat. I had no savings, so I borrowed money off Chris."

PROTECTION GAP

According to Swiss RE, there is an estimated protection gap of £2.4trn in the UK. This means that tens of thousands of families face bankruptcy and homelessness should the main earner lose their job, become critically ill or die. You really need to find the right peace of mind when faced with the difficulty of dealing with a critical illness.

Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain life-threatening or debilitating (but not necessarily fatal) conditions, such as a heart attack, stroke, certain types/stages of cancer and multiple sclerosis. A more comprehensive policy will cover many more serious conditions, including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs.

PROFESSIONAL ADVICE

It's almost impossible to predict certain events that may occur within our lives, so taking out critical illness cover for you and your family, or if you run a business or company, offers protection when you may need it more than anything else. But not all conditions are necessarily covered, which is why you should always obtain professional advice. In May 2003, insurers adopted new rules set by the Association of British Insurers that tightened the conditions under which you could claim on critical illness insurance policies.

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.

PRE-EXISTING CONDITIONS

If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

POLICY DEFINITION

A policy will provide cover only for conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe.

Similarly, some conditions will not be covered if you suffer from them after reaching a certain age, for example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy and most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

How much you pay for critical illness cover will depend on a range of factors including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

Permanent, total disability is usually included in the policy. Some insurers define 'permanent total disability' as being unable to work as you normally would as a result of sickness, while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

Activities of daily living include:

- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair and back again

The good news is that medical advances mean more people than ever are surviving 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. Don't leave it to chance – make sure you're fully covered. ■

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.

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