Derbyshire Booth

FINANCIAL MANAGEMENT LIMITED

Autumn 2014

WealthWise

Attention all older workers

Don't miss out on the chance to triple your money with auto-enrolment

Are you one of the many women that must act NOW?

Are you ready to board the commercial property rollercoaster?

What will you decide to do at retirement?

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Welcome to the latest issue of our in-house magazine; specifically designed to help you make the most of your money by keeping you up-to-date and informed with important financial news and information.

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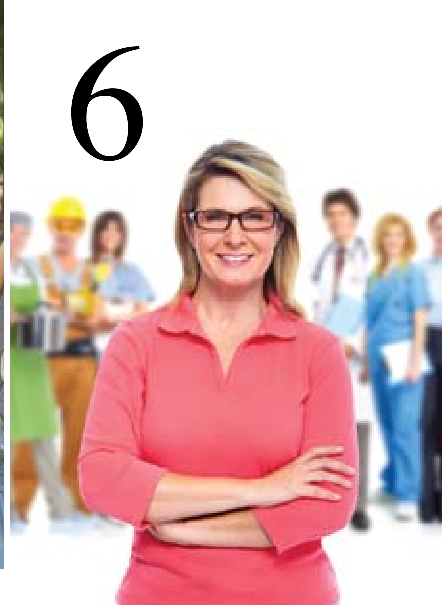
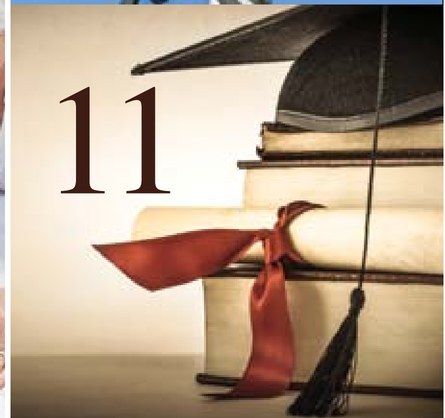
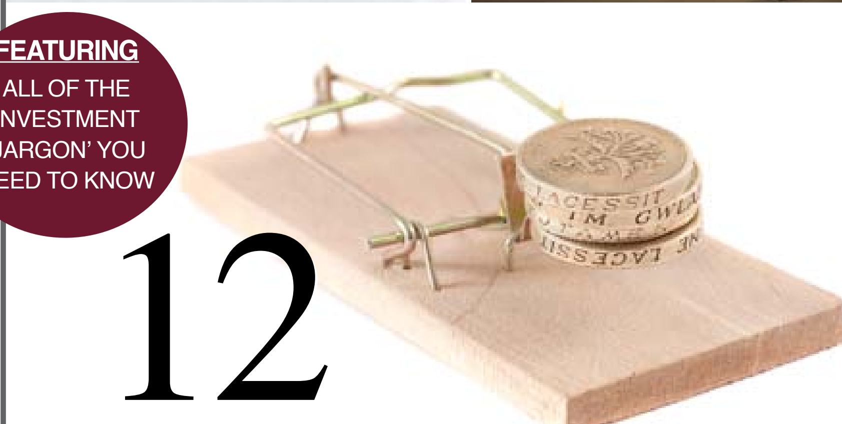
If you require any further information on any of the featured topics, or you would like to receive financial advice based on your own individual circumstances, please fill in your personal details on our "contact me" slip on page twelve, or alternatively please call or e-mail us to arrange an appointment.

WE LOOK FORWARD TO SPEAKING TO YOU.





FEATURING
ALL OF THE INVESTMENT 'JARGON' YOU NEED TO KNOW



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The '*death*' of the DEATH TAX

Your pension pot will no longer be subject to the 55 per cent 'death tax' if it is passed on to your next of kin when you die, Chancellor Mr. George Osborne announced in September.

This means you will be able to leave any remaining defined contribution pension pot to any nominated beneficiary when you die - without having to pay over half of it to the government.

Currently, if you die before you reach age 75 you can only pass on your pension pot to a beneficiary, without incurring any tax, if it hasn't been crystallised – meaning it remains untouched. If you have 'crystallised' or started to draw an income from your pension, your remaining pot is taxed at 55 per cent when it is passed on to your chosen beneficiary.

TAX FREE

However, from April 2015, you will be able to pass on you pension pot completely free of tax, regardless of whether you have touched it or not. The money within your pot will remain free of tax so long as it remains inside the wrapper of your pension.

If you were to die before reaching 75, your selected beneficiary will also pay no tax on what they choose to withdraw from your pension - whether they decide to take it as a single lump sum or access it via income drawdown.

If you were to die after age 75, your selected beneficiary will be able to withdraw as much money from your pension pot as they like, however they will pay tax at their marginal rate on the amount they withdraw. They can also decide to withdraw your remaining pension as one lump sum should they wish, but this will be taxed at 45 per cent.

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A PENSION IS A LONG TERM INVESTMENT THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

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How to save up a decent *pension pot*

Building a decent pension pot in time for your retirement may not be easy, but it certainly isn't impossible.

So, how long is your pension pot likely to last? Or, to put the question another way, how long do you think you will live?

Your individual life expectancy is just one of the pieces of information you should be given at the point of retirement as part of the new 'pensions guidance' announced by the government - according to the Pensions Minister, Steve Webb.

The guidance is promised alongside other radical pension changes, which will see pension savers able to access their pension fund whenever they want, once they've reached age 55.

Mortality rates and statistics are being analysed more than ever before, meaning that information about our likely lifespans has become increasingly comprehensive.

HOW MUCH WILL YOU NEED?

Often the most important step in any financial plan is trying to decipher how much income you will need, so you can work backwards and then figure out how much money you will need to save. A good starting point would be to identify your fixed monthly outgoings; this can then reveal how much disposable money you have and how much you may require to maintain your lifestyle over and above the essentials.

ALLOW FOR A MARGIN OF ERROR

Once you have worked out the income you will need, you can then start to think about how to spread your savings and save enough in order to manage.

You also need to remember to consider your health. The government may provide you with the age you are expected to live until - 86 on average for example, however, you might in fact be lucky enough to live to 100 so you have to consider this possible scenario when mapping out your saving plan.

Do not forget to factor in inflation. For instance, if you spend £10,000 a year today, to make the same purchases by the time you die, per year you might need half that amount again.

Once you retire your spending can typically start off high, perhaps higher than what your spending was in working life. This could be because many of us suddenly do all the things we have ever wanted, but possibly lacked the time, money - or both - whilst working.

Your spending is likely to begin falling as you get slightly older, but may increase again due to deteriorating health. Just as people are poor at predicting life expectancy, they are also poor at predicting health. The cost of care is the sting in the tail, the great unknown and could be as high as £85,000 a year.

Using life expectancy to plan retirement isn't something new. Many professional financial planners have been giving clients this information for several years now, taking into account their entire wealth and needs including possible care home or nursing costs. This helps them determine whether they have enough money to last.

GROWTH, LOSSES AND RETURNS

If you keep your money invested and make regular withdrawals throughout your retirement, you should consider the effect of any potential market gains or losses on the amount of money that will be available to you at different stages of retirement. You can reduce your exposure to risk by spreading your investments, but you will need to conduct thorough research and produce estimates of expected growth rates for different asset classes such as cash, bonds and shares.

You could decide to keep all the money in cash, where, although returns are generally low, they do offer certain clarity and assurance. However, this could see you dipping into your capital, which will deplete your funds over time.

Other assets will provide greater scope for potential growth. For instance, corporate bonds might pay a yield of 5 or 6 per cent. A fund that invests in dividend-paying shares might yield 4 per cent for example. You could then take this generated money as an income without touching your invested capital.

Please note, the underlying value of your assets could both rise and fall. If you need more than the "regular" income from bonds and shares, you might be required to withdraw your capital when stock markets are down.

Buying an annuity, an insurance product that converts a pension fund into a lifetime income, will provide a fixed payout per year, but you lose control of the money. This means that if you die before your predicted life expectancy your estate may lose out. Only if you live longer, will you begin to profit.

Advisers often believe a combination of different products and investments, with each used to meet different income needs and desires, is likely to make the best savings option.

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What will YOU decide to do when you reach retirement?

When you reach age 55, you can choose to access your pension pot should you wish. There are many options available as to how you can choose to do this, however from next April, there will be even greater freedoms and flexibility on offer – as was announced by the government in the March Budget.

Currently, at age 55, you can choose to withdraw up to 25 per cent of your pension as a tax-free lump sum. You then decide how to draw a taxable income from the remainder by either going through a drawdown arrangement or by purchasing an annuity.

As of next April however, you will be able to take unlimited withdrawals from your pension as and when you decide – with the freedom to withdraw your whole remaining fund as a lump sum, if you choose.

SMALLER PENSION POTS:

1 If you are over age 60 and the total value of your pension fund is under £30,000, you can draw the whole amount as a lump sum. The first 25 per cent can be taken tax-free, and the rest taxed as income at your marginal rate of tax. For example, if you had a £28,000 pension pot, you can choose to withdraw the whole amount as one lump sum - £7,000 of which would be tax-free. The remaining £21,000 would then be subject to tax at your marginal rate. This is called the "triviality rule", which can only be done once.

2 Again, if you are over 60 and have small, but separate pension pots equaling less than £10,000 in total, you can draw from each of them to provide you with a lump sum. Again, the first 25 per cent is tax-free – so if you have pension pots equaling a total of £10,000 for example - £2,500 could be taken tax-free, with the remaining £7,500 taxed as income at your marginal rate. This can be done three times. There are some further restrictions, so please contact us for a personalised illustration.

If you are planning to purchase an annuity, these three simple steps can maximise your income:

CONDUCT THOROUGH RESEARCH BEFORE YOU SIGN YOUR PENSION MATURITY PAPERWORK

Do remember to conduct thorough research before purchasing an annuity – don't just purchase an annuity through your pension provider; they may not offer the most competitive pension income. If you just sign the maturity paperwork from your provider without comparing their rate to other rates available, it could cost you a large proportion of your pension. Remember that an annuity is for life and you could receive more income by shopping around. This is where we can help – we can discuss the available options with you and examine the routes on offer to suit your individual circumstances. Please just return the reader reply form on the back page or call us to make an appointment.

BE HONEST ABOUT YOUR HEALTH – IT CAN PAY TO BE TRUTHFUL

If you have any pre-existing health condition, you should declare it from the beginning as you could secure yourself a better deal through what is known as an 'enhanced annuity'. According to www.justretirement.com in July 2014, over 50 per cent of those aged 55 and over, could be eligible for an enhanced annuity because of their health condition or lifestyle.

There are over 1,000 health conditions that could qualify, from fairly common health and lifestyle conditions such as high cholesterol, excess weight or smoking, to more serious or life threatening conditions such as cancer and heart disease. You may even qualify if you had a health condition in the past, but now have the all clear. If you suffer or have suffered from any health condition, however minor you may think it is, do let us know and we can find out if you could qualify for an enhanced annuity.

YOU COULD KEEP MAXIMISING YOUR INCOME THROUGHOUT YOUR RETIREMENT

If you want to maximise your income throughout retirement you could consider an income that increases over time. This could keep one of the banes – the rising cost of living, or inflation – at bay, throughout your retirement.

Over 20 years, inflation could seriously eat into the value of a fixed income. However if you were to purchase an increasing annuity, which increases its payout over time, you may protect yourself from any rises in inflation – although bear in mind that an increasing annuity is likely to pay out less than a flat rate annuity to begin with.

You do not necessarily have to purchase an annuity. As soon as you retire you may not need to secure all of your income straight away. You could consider a mix and match approach using a combination of the other options available. Currently, the other main option to purchasing an annuity is known as income drawdown.

From April 2015, income drawdown will be even more flexible, allowing pension investors to make unlimited withdrawals, or even take the whole of their pension as a cash lump sum.

If you would like to receive a tailor made illustration of the pension income options available then please do make an appointment with us.

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Older workers take note!

Workers who believe they are too old to start saving in a company pension could be missing out on the chance to triple their money by turning down the chance to be automatically enrolled into their company pension scheme.

According to NEST (the National Employment Savings Trust) in September 2014, 28 per cent of over 60s are opting out of auto-enrolment – compared to just 5 per cent of the under 30s. It is thought this is primarily because they think they are too close to retirement and their savings won't make much difference to their return. (Source - www.gov.uk/government) However it is worrying that older workers, who are the nearest to receiving their pension, are not taking advantage of the free money available from their employer.

SO WHY SHOULD OLDER WORKERS OPT IN?

Due to the new pension reforms announced in the Budget earlier this year, those closest to retirement could effectively receive over a 100 per cent boost to their contributions in just a few years - and then potentially withdraw all their money tax-free.

This year marks two years since auto-enrolment first began – which started with the biggest companies, with the most employees. By 2017, all employers, however small, will have to automatically enrol their employees into a company pension scheme. Employees don't have to do anything in order to join, but they can opt out should they wish.

Once you have been enrolled into your company pension scheme, your contributions are deducted at source, directly from your pay. Your contributions are then topped-up by contributions made by your employer - the amount of which is usually based on a percentage of your salary. You will also receive tax relief at your marginal rate of tax from the government.

According to NEST, many older workers decide to opt out because they believe the amount they could save up in the remainder of their working lives would make very little difference to their income in retirement. However, since auto-enrolment first began, two fundamental things have changed; firstly, the amount of income you can receive before paying tax; and secondly the newly announced pension rules, which will allow you to withdraw all of your money in cash.

Potentially, this means those retiring post April next year, could withdraw all of their money from their company pension scheme and not pay a single penny to the taxman.

HOW DO THE SCHEMES WORK?

An employee automatically enrolled into a company pension scheme will save 0.8 per cent of their salary - 80p for every £100 of earnings. Their employer then adds another £1. This then totals £1.80 in employee contributions.

Because you are paying into a pension, you are repaid the tax you originally paid on those earnings. So, if you are a basic rate taxpayer and you pay in 80p, the government tops this up by adding in 20p, which effectively returns the 20 per cent tax you originally paid on your earnings. So that £1.80 contribution now equals £2.

Also, because you are investing your money, it has the chance to grow with the stock market. Lets assume a rate of 5 per cent per year and you earn £24,000 today, receive an increase in contributions in 2018, with a small pay rise every year and 5 per cent annual growth, a 55-year-old could build up a sum of £14,134 in ten years.

Of this, £5,479 would be their own contribution, £4,315 would be from their employer, £1,370 would be tax relief received from the government and £2,970 made up of investment growth. This would equal a rather worthwhile 258 per cent increase on the amount they contribute themselves. In the same instance a 60-year-old could save £5,383 in five years - £2,181 from their employer, £639 tax relief and £631 investment growth, equaling a 210 per cent increase of their own £2,556 contribution.

Currently, when you then come to withdraw money from your pension, you can choose to withdraw 25 per cent tax-free and take the rest as income, which is taxed at your marginal rate. But as of next April everyone will be able to earn £10,500 a year before paying tax. The current state pension is worth approximately £5,880 a year, however, when the new flat-rate state pension is introduced in 2016, this will be worth approximately £8,060 a year – so you will still be able to receive another £2,440 per year before any tax is charged.

One good thing is that even if you initially chose to opt out of your company pension scheme, every three years you are automatically enrolled back into the scheme – with the option to opt out once again should you wish.

Anyone who is unsure about his or her position should make an appointment with us for professional financial advice. However for many older workers, the employer contribution coupled with the Budget pension reforms demonstrate how it can still prove extremely beneficial to save into a pension…assuming nothing else changes!

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Multi-Asset Investing

Many investors became very aware of the risks posed by market volatility following the financial crisis in 2007. Although investing always carries a certain level of risk, there are ways however that you can reduce your exposure to it.

One of the most effective approaches is called "multi-asset investing".

The principle behind multi-asset investing is, in simple terms, investing across a variety of asset classes, each of which would expectantly react differently to changes in the economic climate.

By doing this, any fall in value of one asset class would then hopefully be outweighed by an increase in another - limiting the overall risk of damage to your portfolio. By adopting this strategy you should be able to ensure a better overall performance.

However experienced you are in the world of investing, it is always sensible to receive advice from your professional financial adviser – so please make an appointment with us for a personalised investment illustration.

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COMMON MISTAKES:

1 NOT INVESTING DIVERSELY ENOUGH

It should be acknowledged that investing in just one company, asset class or product could prove very risky. You should ideally invest in a range of asset classes, for example cash, equities and bonds. You could also consider investing across different continents - from Europe to Asia - so if one starts to suffers, you hopefully won't lose it all.

2 INVESTING LAST MINUTE

When investing in an NISA, it can pay to invest earlier rather than later in the financial year as your money will have more time to grow in the market. Avoid investing in haste. Do your research and give yourself more time to think about what to invest in - don't invest on a whim or in the first thing you hear about without doing any investigative work.

3 BACKING PREVIOUS SUCCESSES

The winning assets in one year could continue to flourish, however do not forget; they could just as easily crash and burn the following year. Asset classes bounce around from top to bottom in the performance tables every year, so don't use past performance as an indicator for future performance. Unless you have the time to study the markets on a frequent basis, a multi-manager or multi-asset fund could be a wiser choice.

4 BEING SWAYED BY ADVERTISING

Investment firms often have large advertising budgets and frequently see fit to advertise their latest funds wherever they can. One of the biggest mistakes a beginner investor can make is investing in an investment fund just because an advert made it look appealing.

5 SWITCHING TOO OFTEN

Because of the costs incurred when buying and selling, switching between investments too often can become rather expensive. You should think about investing over a longer term - a minimum of five years perhaps - particularly when investing in equities. Avoid a high turnover of trades, if you deal too much, turnover effectively becomes a tax on your investments.

Are you ready to board the *commercial property rollercoaster?*

Following the spectacular boom and subsequent bust during the financial crisis, commercial property saw a dramatic fall in popularity amongst investors. However, following recent returns, what was once a firm investment favourite, we ask…could commercial property investments be making a comeback?

Before the recession, many commercial property investors did very well as capital prices soared, however when the financial crisis struck, many had their fingers burnt. They suddenly found out that buying an industrial unit or a proportion of a retail park wasn't the same as buying listed shares in large established companies.

Commercial property funds were once very appealing and according to figures released by the Bank of England, during the height of their popularity in 2006, these funds enjoyed sales of £3.6bn as investors flocked in.
(Source - www.bankofengland.co.uk/statistics)

However when the crunch struck, the performance of these funds buckled and between 2007 and 2009 commercial property values plummeted by more than 44 per cent. This was the sharpest decline ever recorded, according to the IPD Monthly Index.
(Source - www.ipd.com/regional/uk-and-ireland)

However, fast-forward five years with the economic climate gradually improving, commercial property funds are once again becoming a hot choice amongst investors. According to the trade body, Investment Management Association (IMA) since this time last year, investors have ploughed approximately £1.5bn into these funds, marking over a 100 per cent rise since 2012.
(Source - www.investmentfunds.org.uk)

HOW COMMERCIAL PROPERTY CAPTURED INVESTORS

During the financial crisis, the sudden and dramatic reduction in the value of many commercial property funds, caused several investors to cash-in on their holdings; putting a strain on the short-term liquidity levels of many property funds in the market.

Many commercial property fund providers therefore began to disallow any cash withdrawals; imprisoning many investors who were told they had to wait at least six months to release their money. These restrictions were only withdrawn once fund providers could be sure they would not experience widespread selling.

Because most ordinary investors cannot put their cash directly in a commercial property, there is more of an appeal to invest through a fund. Investing through a fund means you can spread your cash across a wide variety of commercial properties, such as industrial parks, retail parks, high street stores and commercial offices, for example. This not only limits your exposure to risk, but the rent paid by the leaseholders can cover certain costs, or provide a stable income, in addition to any capital growth.

Traditionally, investing in commercial property has been an alternative income source for investors – and although there may not be a big increase in the capital value of commercial property for a while yet, there are a number of funds available that could deliver you with a decent income.

Although the average total return from commercial property was just 2 per cent last year, according to Legal and General in August 2014, the gains over five years are a much more attractive 76 per cent, which are most likely due to improving tenant demand, better credit conditions and appealing valuations.
(Source - www.legalandgeneral.com)

SO, WHERE CAN I INVEST?

There are two main types of property funds: those that invest directly in commercial buildings and those that invest in the shares of companies in the property sector - such as building developers, hotel chains and retail groups. Real Estate Investment Trusts, (REITS) which commonly include hotel chains, can offer the potential for higher capital growth but can be risky – so it very much depends on your investment position and your attitude to risk – please contact us for a personalised investment calculation.

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Are you one of the many women that MUST act now?

Before 1977, thousands of married women and widows could elect to pay a reduced rate of National Insurance contributions (NI), known as the 'married woman's stamp'. However, these women may be set to lose out when the new state pension is introduced in 2016…making it imperative to check and review their pensions now!

WHAT IS HAPPENING?

Before 1977, married women - and some men - were able to decide to pay national insurance contributions at a reduced rate. However, by deciding to do this, they gave up their right to accumulate a state pension of their own and instead relied upon their spouse's contributions for an eventual state pension payout.

The married woman's stamp was scrapped for all marriages as of 6th April 1977. Women, who had already married and had chosen to pay NI at the reduced rate however, were able to carry on doing so.

At the moment, any woman that married before 1977 and chose to pay NI at the reduced rate, can claim a state pension worth 60 per cent of the basic-rate, which is approximately £68 a week. If their spouse were to die, they would then receive a widow's pension of up to £113.10 a week.

Divorced couples are also entitled to a state pension based on their former spouse's NI record during the period in which they were married – if it is better than their own NI record.

WHAT'S CHANGING?

Currently, the basic state pension, plus any means-tested additions, is £113.10 a week. However, from 6th April 2016, pensioners will get a flat-rate state pension of around £144 a week – if they have worked and paid NI for at least 35 years. Anyone that has contributed for less time than the minimum number of qualifying years – which is predicted to be around ten years - will not receive any state pension at all.

WHY COULD THIS BE A PROBLEM FOR SOME WOMEN?

Fundamental to these proposed changes in 2016, is the necessity to have made contributions of your own in order to qualify for the flat-rate state pension - and not relied upon those contributions made by a spouse. The Pensions Minister, Mr. Steve Webb, stated in June this year that he expects around 30,000 female pensioners could be worse off by 2020 as a result of the changes. (Source - www.bbc.co.uk/news/uk-politics)

WHO IS MOST AT RISK?

These new rules will apply to anyone who reaches the state pension age after 6th April 2016. Those that reach the state pension age beforehand will be subject to the current rules.

It could become very complicated if the dates that you and your spouse reach the state pension age are either side of the April 2016 transition to the single-tier pension. For example, if you have claimed the married woman's stamp and you are due to reach state pension age **before** 6th April 2016, but your spouse is not due to reach state pension age until after 6th April 2016, you should qualify for a payment based on your spouse's contributions up to 5th April 2016 in this scenario.

However, if you have claimed the married woman's stamp and are not due to reach the state pension age until **after** 6th April 2016 – yet your spouse is due to reach state pension age beforehand - you will not be entitled to a state pension based on your spouse's contributions, unless covered by special transitional rules.

Transitional rules apply if at any time in the 35 years leading up to state pension age you decided to pay reduced-rate NI contributions. You will be able to claim any entitlement, which has been built up under the current system to 2016 or a single-tier pension based on your own contributions, including any qualifying years after 2016, if higher.

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Investment *'Jargon'*

A report issued by the Financial Conduct Authority (FCA) back in July this year found that many investment houses and fund managers are failing to provide their investors with clear figures surrounding total fund charges, deeming their charging structures "inefficient" and "a cause of confusion."

Asset managers were also criticised for using, "difficult to understand" terminology within their information.

The FCA decided not to take any formal action for the time being, but did put forward a number of recommendations; one of which included the suggestion to scrap the annual management charge in favour of dispersing the cost as an ongoing charges figure.

When it comes to investing, not only can confusion around charges end up costing you money, so can a lack of clear understanding of the investment jargon and terminology. Therefore, in the following article we endeavour to clarify some of the most common terms you may need to know:

SET UP CHARGE

This is the set fee or charge that is taken from the total of your investment before it is invested. This is to cover the initial costs of setting up the deal.

ANNUAL MANAGEMENT CHARGE (AMC)

This is what you pay to the fund manager each year. The AMC is taken directly from your fund to cover the management costs. However do bear in mind that the AMC often excludes many other fees - including administration, accounting and any possible legal fees.

TOTAL EXPENSE RATIO (TER)

TER is a good indicator of the annual costs of a fund as it includes the AMC, plus any further costs that are taken directly out of the fund - such as legal fees, audit charges and any performance fees for example. The TER is often levied at between 1 and 2 per cent. TERs do not include any dealing costs for buying and selling shares or bonds however.

CLEAN SHARE CLASS

A clean share class means any commission that was previously paid out to a fund supermarket or financial broker has been taken away. This was a result of the regulatory shake-up, the Retail Distribution Review (RDR), which aimed to make fund charges more transparent.

Now, instead of being charged a typical 1.5 per cent for an actively managed fund, you will typically pay just 0.75 per cent in 'clean' fund charges - with the adviser or platform fee charged on top.

Do bear in mind however that it isn't always easy identifying which share classes are 'clean' and which are not and there is currently no specific way to distinguish between certain share classes.

NET ASSET VALUE (NAV) – DISCOUNT OR PREMIUM

Investment trusts are similar to unit trusts - both pool your money to invest in a range of companies – however there are key differences you should note.

Investment trusts consist of public companies traded on the stock market, which have a limited number of shares available to purchase. When you go to buy shares, the share price depends - not just on the value of the underlying investments - but also on the demand for the shares. If more people want to buy than sell, the share price increases - and vice versa. The price of a unit trust however, always reflects the value of the underlying investments - less any charges.

Investment-trust shares can often be bought for less than the value of the shares under ownership. The trust is then said to be trading at a discount to its 'Net Asset Value' (NAV). When the opposite happens and the shares are worth more than the NAV, they are then said to be trading at a premium.

INCOME SHARE CLASS (INC)

This is any income generated by the fund's investments, like dividends or bond interest, which is then paid out to you.

ACCUMULATION SHARE CLASS (ACC)

With accumulation shares, any income generated from the fund - paid out as a dividend for example - is paid back into the fund. Over the longer term, these reinvestments can provide a large proportion of the overall return.

BID-OFFER SPREAD

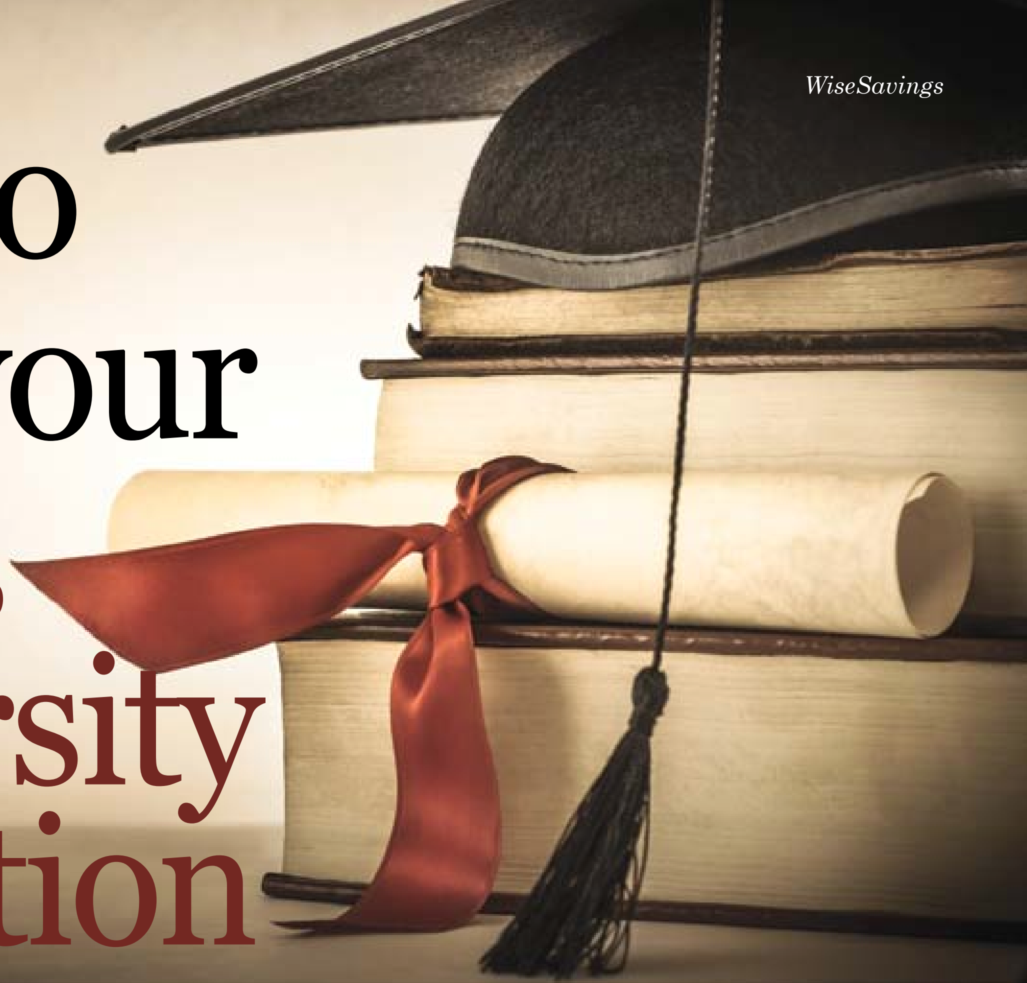
If you are buying shares or unit trusts you pay a 'bid' price and when you are selling, you pay an 'offer' price. The selling or 'offer' price is often higher than the buying or 'bid' price. With unit trusts the difference between the buying price and the selling price, or 'bid-offer spread', is often similar to the initial charge – although the spread may be bigger if the fund has incorporated any extra costs, such as stock broking commission for example.

ONGOING CHARGES FIGURE (OCF)

The FCA would like to see the OCF as a true measure of the overall cost of a fund – excluding any performance fees. The performance fee and transaction costs are disclosed separately.

OCFs are presented in percentage terms and can be misunderstood, so to add further clarity, the Investment Management Association (IMA) is keen to introduce another measure, which will also include transaction costs. They want this to be presented in real terms – providing true values of how much profit or loss you have made and how much the fund has cost.

How to fund your child's university education



Not only have we been trying to recover from the financial crisis that bought about stunted incomes and higher living costs, we now have to face the reality that if we do not want to see our children graduating from university with large debts, we will have to help significantly more towards our child's university funding. Here we guide you through our top strategies as to how you can help:

1. START YOUNG

If you start saving as soon as your child is born, you should stand a very good chance of building up a sizeable savings pot. Currently, if you were to save approximately £250 a month from birth, you could potentially save up to £100,000 by the time your child reaches the age of 18 - which could help significantly with the cost of any further education. However, due to inflation, do remember that in 18 years' time the fund will not retain the same buying power.

2. SAVE WHATEVER YOU CAN AFFORD

If you cannot afford to save as much as the £250 per month as already mentioned, it is still worth saving as much as you can into as higher-interest savings account or investment plan as possible. Aim to be as tax-efficient with your savings as possible - utilise your personal ISA allowance for example – which increased to £15,000 on the 1st July this year – open a Junior ISA and perhaps even consider some of the tax-exempt savings plans run by some providers.

3. CONSIDER TAKING HIGHER RISKS

If you have 10 years or more in which to save, you could consider equity-based plans, which can deliver a good return over the longer term. If you have a 15 to 18-year time frame you could consider emerging market funds, as you should have the time to ride out any possible market volatility – however, these can be risky so do discuss this with us before making any investment decision. Remember to diversify your investments as much as possible and then gradually move funds into safer forms of investments when your child is approaching 18 – perhaps as your child reaches their GCSEs.

4. GRANDPARENTS

If a grandparent can afford to make regular gifts to their grandchild, not only can this help towards a grandchild's living expenses or university fees – they can reduce any potential Inheritance Tax (IHT) liability. These gifts however, must come from income - not capital - and they must be made on a regular basis, which do not cause any decline in their own standard of living. If these conditions are met, then these payments are excluded for IHT purposes.

5. HELPING WITH REPAYMENTS

You might not be able to save enough in advance to cover the total cost of their university tuition fees, but there is nothing to stop parents helping their child repay their student loan. It wouldn't be advisable to remortgage your house or take on a high-interest loan, but as soon as they start earning enough money, there is nothing to stop you helping them with the repayments. However, do be aware that there may be redemption penalties for those who try to pay off the entire balance early.

If you would like any further help or information regarding the options available to fund university for either yourself or a relative, please make an appointment with us today.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM TAXATION, ARE SUBJECT TO CHANGE.

Be aware of the possible PENSION TAX TRAPS

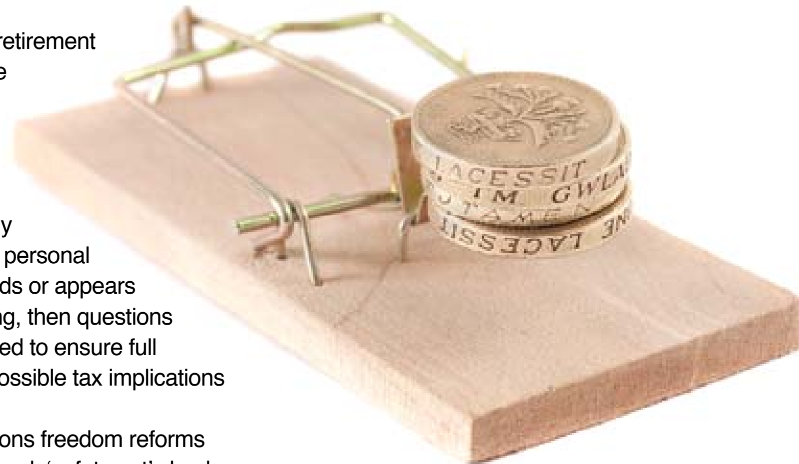
The pensions industry may have to take further action in order to ensure we are made fully aware of the potential tax traps when it comes to accessing our pension savings.

As part of the pensions freedom reforms, from next April, savers in defined contribution pension schemes will gain the freedom to withdraw their pension savings as a cash lump sum with no obligation to then purchase an annuity.

This greater flexibility could see an increase in the numbers of savers preparing to cash in their pensions in April, however, many may not be aware that any cash that is not taken as a tax-free lump sum will then be subject to income tax.

The pensions regulator has therefore suggested that all pension providers present their customers with a report detailing the possible tax implications should they wish to access some - or all - of their pension savings.

What's more, these tax safety checks may be put in place before the new freedoms come into force. When making a decision to buy a retirement income product, The Pensions Regulator believes personal decisions ought to be checked for full understanding of any tax implications. If a personal decision looks at odds or appears to lack understanding, then questions may need to be asked to ensure full awareness of any possible tax implications in the future.



Should the pensions freedom reforms take place as proposed, 'safety net' checks may become vital to ensure no one ends up with a tax bill they didn't anticipate or plan for.

The Association of British Insurers, which acts for pension providers in the UK have said they agree with the FCA's proposal stating, "We recognise the importance of people being aware of any possible tax implications when considering their pension options – especially when thinking about taking all their pension pot as cash".

It is extremely important to make sure you receive specialist advice before deciding how to access your pension fund – particularly in light of these new tax implication concerns. For detailed advice on your own individual tax circumstances, please do make an appointment with us. We are here to help you get the very most from the money you have worked hard to save up.

A PENSION IS A LONG TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND ON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

For more *information*

on any of the articles or related topics within this publication, or for individual financial advice based on a range of financial products, which may be available, please fill in your details on the right and return this to us.

Personal information will be treated as confidential and held in accordance with the Data Protection Act. You agree that your personal information may be used by us to provide you with details of products and services we may offer.

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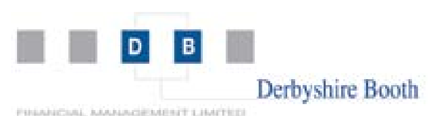

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