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YOUR WINDOW ON FINANCIAL ISSUES

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INSIDE THIS ISSUE

The ideal platform for investments
Planning on leaving your money to the taxman?
Who cares?
Is it ever too late to start a pension?

WHEN IT COMES TO PENSION ANNUITIES, IT PAYS TO SHOP AROUND

Saving for your pension is only half the battle for a comfortable retirement. As a new comparison website from the Association of British Insurers (ABI) shows, annuities — the income for life you receive in exchange for your pension pot – vary enormously between providers. Accepting what your pension company offers can leave you thousands of pounds worse off.

But just what is your pension pot really worth? There's no simple answer. The ABI's new online tool shows very different annuity rates from their 27 members. Accepting a low rate from your current provider could mean missing out on a comfortable retirement.

For years, that's exactly what many people have done. As the annuity comparison tool reveals, the differences between providers are huge. Standard annuities vary by over 30 per cent, while for someone with health problems the range is even greater. While one well known provider would offer a 65-year-old smoker with a £24,000 pension pot just £1,213.59 a year, another would be happy to give 46 per cent more at £1,778.23 a year. That's a difference of £11,000 for anyone who lives to the age of 84, and of course the gap goes on getting wider.

The fact is pension savers usually don't need to accept an annuity from their pension provider. They can take advantage of the open market option (OMO) to shop around for a higher rate.

Of course this is very good news, but even with this new initiative the annuity market remains a minefield. The ABI site is not a best-buy table, and only provides sample rates based on 12 typical customer profiles. Rates constantly change and figures will be two months old, meaning it will not provide much help for ordinary savers, especially as individual circumstances affect rates. Age, lifestyle and even address details all have to be considered – no single provider will be a best choice for everyone. Some firms that top the table on one scenario fall to the bottom in another.

What's more, getting the best rate may not be the whole story. Getting the kind of annuity that fits with your needs – for example, you may want payments to your spouse to continue when you die – is also essential.

The ABI acknowledge that the position is complicated. The new code of conduct for their members now requires pension providers to give customers an information pack before offering an annuity. But understanding the details and keeping track of the data on the website could be a challenge for all but the most determined saver.

Perhaps the best way to see this initiative is as proof of the need to shop around rather than accepting the possibly uncompetitive offer made by your pension provider. Finding the best rate for your needs will probably need some expert advice from your financial adviser. You could be enjoying the benefits for the rest of your life.

KEY FACTS

When you retire, you can either buy a lifetime annuity or opt for the 'drawdown' route

An annuity can pay a level income or an increasing income to help combat price rises

THE IDEAL PLATFORM FOR INVESTMENTS

With the economy now getting back on track and markets improving, it could be time to review your investments to take advantage of new opportunities. Monitoring those investments can be a great deal easier if you have a platform.

Computers and the internet have changed most aspects of modern life, and investment is no different. Instead of having piles of paperwork – filing boxes gathering dust in the back bedroom and certificates and insurance policies (hopefully) in a safe place – it's now possible to monitor investments electronically, with the help of an investment platform.

An investment platform is a new kind of online service that offers an easier way to keep track of your investments. By making monitoring investments easier, it could also help make the most of them.

A platform is a responsive online service that lets you, and your adviser, see all your assets in one place. It gives the very latest valuations of each element within your portfolio – and makes it easier for you to benefit from their skills.

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A BETTER WAY TO MONITOR INVESTMENTS

With a platform in place, your financial adviser can monitor your investment portfolio, armed with the very latest figures. Instead of hunting through files, your adviser can see all your holdings at a glance – and identify where action is needed. If you have a risk averse profile, for example, they can pinpoint what holdings need to be divested if the outlook is gloomy – or where an opportunity for profit might present itself.

The platform not only makes it simple to monitor performance of the portfolio, it provides an effective way to select, buy and sell investments from a wide range of providers. It gives your adviser access to a wide range of investment funds, helping you enjoy a portfolio that is structured around your needs and preferences.

ONLINE TOOLS

An investment platform provides much more than raw data, the levels of holdings, and the current prices. Instead it interprets those figures with smart analytical tools for portfolio planning, tax planning and reporting. It can also provide online investment selection tools to let your adviser search quickly and easily through thousands of investments from different providers, supported by filters that help find the right investment for a particular need. Holdings can be compared by returns, volatility ratings, asset allocation, sector splits and more, and market performance of individual investments can be compared. It can even flag up important financial deadlines or policy renewal dates.

VERSATILE

Platforms are versatile enough to deal with virtually any kind of investment, allowing your adviser to monitor stock market investments, commercial property and gilts, life insurance policies, unit trusts and other collective investments, including those held in tax-sheltered form such as Individual Savings Accounts and Self Invested Personal Pensions.

Talk to your adviser about a platform and how having easy-to-view assessments of investment performance can help increase your current net worth.

PLANNING ON LEAVING YOUR MONEY TO THE TAXMAN?

Inheritance tax – once known as Estate Duty – used to be something that only troubled the seriously rich. Now, with house prices rising in line with a recovering economy, many more people are starting to find that the taxman will take a share of their legacy before their loved ones. But there are steps you can take to help ensure your wealth goes where you want.

The Inheritance tax (IHT) net is catching out more and more people, thanks to recovering house prices meaning that many more of us have estates worth above the threshold value of £325,000 – or £650,000 for married couples and civil partners. According to official figures, IHT receipts have climbed for the third year in a row.

With assets beyond the IHT threshold taxed at 40% it can mean a substantial loss. However, inheritance tax liabilities can be reduced or even avoided altogether – if you make estate planning part of a long term financial strategy. Your financial adviser should be able to suggest some effective solutions.

The most obvious way to reduce potential IHT is to give money away before you die. You can give £3,000 away every year.

You can give an unlimited number of small gifts of up to £250 per person and larger gifts to a couple on their marriage. It may seem a simple solution – but you may need to start your generosity early. Beyond these allowances (or 'regular payments made from income without affecting your standard of living'), money given away in the seven years before you die may be counted as part of your estate and therefore subject to IHT.

However, although gifting cash is easy enough, for most of us, property is our main asset, and the reason why our estates fall into the scope of inheritance tax in the first place. Obviously, you can't gift small parts of your home – but there are some measures which can take your property outside the IHT threshold. Downsizing is one answer, but there are some financial measures your financial adviser could discuss with you.

Other alternatives include whole of life insurance policies with enough cover to take care of the IHT liabilities. There are also certain classes of investments which can provide some measure of exemption for your heirs – while still providing you with the potential for income while you can still enjoy it.

Estate planning and tax advice is not regulated by the Financial Conduct Authority

WHO CARES?

We are all living longer. According to current research, 50% of babies born now could live to see the grand age of 100. Unfortunately, longer life does not always mean longer independent living. More of us could need to fund long term care, for ourselves, parents or spouses.

Nursing care may be free under the NHS – but social care, the provision of homes for old people who are frail or no longer capable of looking after themselves is not, and the bills can be frightening. Even a local authority home can easily mean bills of £1,500 a month and the costs of private care can be much higher. Care fees usually increase annually, making planning ahead difficult when it is impossible to know how long someone will live.

The state makes a contribution, but anyone with assets over a certain level currently receives no local authority funding (which varies across the UK). If you are theoretically eligible to be fully funded by the council but want to choose a care home which charges more than the council's 'usual rate' you may have to make up the difference. These sometimes bear no relationship to local market prices so there may be no places in an area at the council's usual rate. In these instances councils will ask for third party top-ups – which can be paid for by relatives or charities.

Some authorities may contribute to care fees through a secured loan and the NHS may assist with nursing care costs – but every year, thousands of people are forced to sell their homes to pay for their care.

This is set to change. The 2013 Budget set out plans for a cap on lifetime care fees and a higher permitted level of assets before requiring personal contribution. The national lifetime care costs cap will be £72,000 and the assets threshold £118,000, but these will not come in until 2016. Even when the limits are in place, it may be necessary for family to cover a shortfall.

Planning is difficult – but there are solutions available. One possible answer is a lump-sum purchase of an immediate care annuity to cover fees for the rest of their life. This can be costly, and the sooner you talk to your financial adviser about the possibilities the more affordable it may be.

IS IT EVER TOO LATE TO START A PENSION?

The experts say the ideal time to start putting money into a pension is as soon as you start earning. That said most of us don't live in an ideal world – so is there anything we can do if we've left things late?

We all know that paying into a pension plan is a good idea. Few of us can rely on a job-for-life employer's pension scheme, and living on a state pension is not an appealing prospect – plus there is the satisfaction of getting something back from the taxman. However, with student loans to repay, the cost of getting on the property ladder and then the expense of a family, many of us put off making the arrangements we need.

But if we find ourselves in our 40s or even 50s without a pension pot, is there anything we can do about it?

The sums are sobering. Those in their 40s would have to save 20% to 25% of their incomes to match what they could have accumulated had they put aside just 10% starting in their 20s. If they wait until their 50s to start, they would have to contribute 40% or more of their incomes.

That is simply not possible for most people. But refusing to save anything because you can't save 'enough' makes no sense at all. The fact is whatever you save will supplement your state pension and help make your golden years a little more enjoyable. So, do think twice before opting out of pension auto-enrolment when your employer is brought into the scheme and has to make contributions alongside yours.

It's not simply a matter of spending less and planning on working for a few extra years. You need to have an effective pension savings plan in place, and there are several options to consider. For example, Self Invested Personal Pensions (SIPP) or stakeholder pensions might provide a suitable alternative, depending on your needs and circumstances.

You need to talk to your financial adviser about the option that's best for you. But if you have left planning your pension late, the most important piece of advice of all is – do it today.

NEWS BITES

In a further encouragingly bullish statement, the Bank of England's Monetary Policy Committee has revised upwards their forecast for the UK's Q3 Gross Domestic Product to +0.7%, as opposed to the previous figure of +0.5%.

The Council of Mortgage Lenders reported increasing competition in the market place. July alone saw £16.6bn of new mortgages made available. There are now 11.3 million mortgages in the UK worth a staggering £1.2 trillion.

The Office for National Statistics reported that UK unemployment dipped to 7.7% (May-July) from 7.8%. The number of people claiming Jobseekers Allowance also fell by 32,600 to 1.402 million. 29.84 million people are in employment.

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.