PERSONAL INVESTMENT PARTNERSHIP LTD
Wealth Management

Kent Enterprise House, The Links, Herne Bay, Kent CT6 7GQ
Tel: 01233 888363 Fax: 08704 718005
E-mail: clientservices@pipltd.co.uk Web: www.pipltd.co.uk

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YOUR WINDOW ON FINANCIAL ISSUES

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NOW THAT THE DUST HAS SETTLED ON THE BUDGET, WHAT DID IT MEAN FOR YOU?

The Chancellor announced in his March Budget that 'support for savers is at the centre of this Budget' and went on to outline a series of measures that represent, arguably, the biggest shake-up in the pensions industry in modern times.

Put simply, from April 2015, personal pension holders and (subject to any restrictions imposed by the scheme provider) members of a defined contribution scheme can have access to their pension pots as and when they want to from age 55. This change came with an explicit 'health warning'; George Osborne clearly underlined in his speech the need for expert advice to make the most of the choices now available.

That advice needs to cover how best to secure an income in old age, how much to take as a lump sum, planning for care needs, and the tax implications of any proposals.

With the ending of compulsory annuity purchase, many people are asking if annuities have a future. The answer is a resounding 'yes'. Annuities still have a role in financial planning. Providing a secure, guaranteed source of income to cover living costs is still a major financial aim for many pensioners, especially those who want to cover the possibility that they may live longer than expected. Those with larger pension pots may want to consider flexible drawdown of their funds in tax year 2014-2015. In order to qualify for this, you now need to have a secured annual income of at least £12,000 (previously £20,000). So taking out an annuity to bridge the gap if your state pension doesn't meet the required level might make good financial sense.

The Government announced another pension change in the Queen's Speech. As early as 2016, employees will be able to pay into workplace funds shared with other pension scheme members. These are most likely to suit the needs of savers who don't want control of their pension and don't want to choose where their money is invested. In the meantime, savers should of course continue to save for retirement.

Savers got other benefits from the March Budget. ISAs are now NISAs and you can save up to £15,000 per year and the Junior ISA limit is increased to £4,000, both effective 1 July.

CITY CHAT

Flexible Friend Mk.II
Not everyone will remember the ubiquitous Flexible Friend, the Access credit card that reflected the newfound spending power of the 1980s. Launched in 1977 by Lloyds, Midland (HSBC), NatWest and RBS, it meant almost everyone could access "loadsamoney".

When credit cards went global, our Flexible Friend succumbed to MasterCard®. Now a new Flexible Friend is waiting in the wings, but it may already have missed its cue. Bank of England governor Mark Carney has promised long-lasting plastic banknotes like those in his native Canada.

Meanwhile, a British Retail Consortium survey has found consumers' use of cash has carried on falling as they increasingly use debit cards for smaller transactions. Online and contactless payments are also accelerating the cashless trend.

GEO-POLITICAL ISSUES AFFECT THE MARKETS

The first half of 2014 has seen dramatic geo-political events, with the civil war in Syria escalating and its Islamic Jihadist opposition uprising now spilling over into Iraq, with murderous consequences. Russia has also annexed the Crimea region of Ukraine, and the pro-Russian activists are now trying to claim large areas of Eastern Ukraine.

Surprisingly, these major political interventions have had little impact on the world's equity and bond markets, where volatility has remained subdued throughout the first half of 2014.

- **Geo-political events drive markets**
- **Low volatility in the markets in first half of the year**
- **Economic growth in Eurozone stagnates**
- **Oil price reflects tensions in Ukraine and the middle east**

Historically, low volatility in the markets induces a slightly bullish sentiment in investors and this has proved to be the case with both the USA and UK markets, as witnessed by the fact the FTSE100 is, at the time of going to press, sitting at 6,766.8. This is only just over 1 per cent above the level it closed on at the end of 2013. Having said that, it currently stands 12.9 per cent above its level of three years ago.

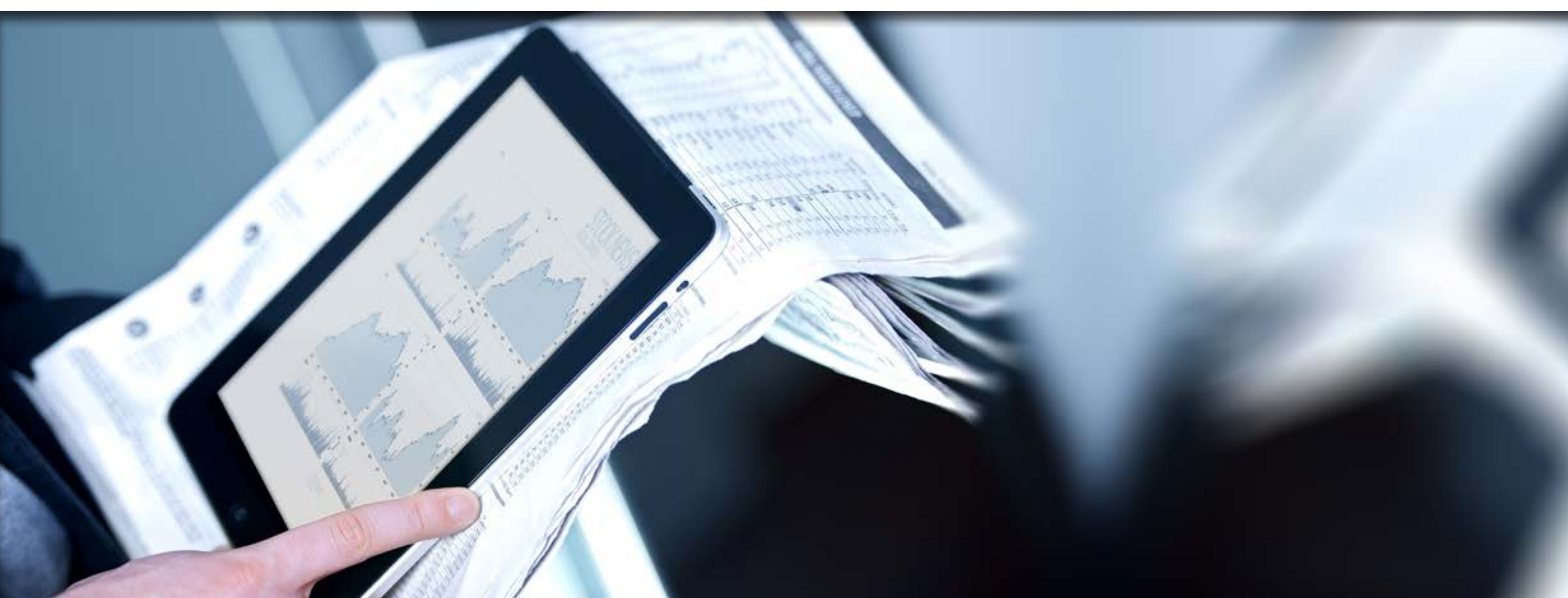
For the global investor, decisions surrounding the ethics, politics, and geographical slant to their portfolios are important, so careful research will be essential in the second half of this year.

Across the globe, the recent recession - and its inevitable brake on economic activity - has prompted central banks to ease liquidity and 'quantitative easing' which has been adopted by first the Bank of England, then the US Federal Reserve. This massive boost in money supply has distorted many markets, particularly Government bond markets, so investors have to be wary of central government policies moving forward.

Economic activity in Q1 and Q2 has been widely different, especially across Europe. The Eurozone Member States have seen some states remaining firmly in recession and many believe the Eurozone itself is close to entering a damaging deflationary phase. Meanwhile, here in the UK, Gross Domestic Product (GDP) has powered ahead. The latest forecast for UK GDP growth in 2014 has been revised upwards to 3.1 per cent.

As a result of this, Mark Carney, the Governor of the Bank of England has said that they may well raise interest rates from their historic low of 0.5% sooner than previously advised, so the markets are now factoring in an interest rate rise before the end of this year. Consequently, UK sterling has recently risen above $1.70.

The commodity markets have followed political events closely, with oil rising steadily. The benchmark Brent Crude price has recently ventured above $115 a barrel (up from $109.10 at end 2013), reflecting tensions in Ukraine, Nigeria, and more recently Iraq.



GOING UP

Are interest rates set to rise? The Bank of England party line of no increase from a 0.5 per cent rate until mid-2015 has been updated. Mark Carney, Governor of the Bank of England, gave the clearest indication yet in his Mansion House speech on June 12 that an interest rate rise is on the cards, saying the first increase *"could happen sooner than markets currently expect"*.

This would be very welcome news for all those savers, often elderly people in retirement, who have anxiously watched rates sink during the downturn. Not such welcome news for those with large mortgages who have benefited from an unprecedented period of lower monthly repayments.

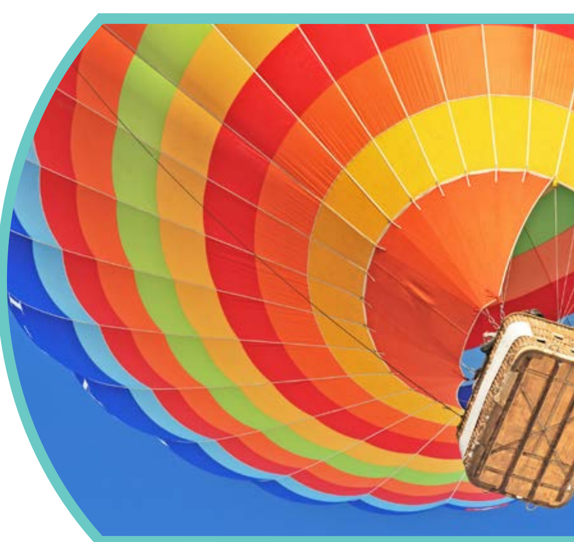
The recent surge in house prices and the sharp increase in mortgage lending under the Government's 'Help to Buy' scheme have given rise to talk of a 'housing bubble', and although the Bank of England has made it clear that it will use measures other than interest rate hikes to try and cool the housing market, raising rates would dampen demand.

UK interest rates are influenced by events far beyond these shores. The European Central Bank recently introduced negative interest rates. Other factors that could change the economic landscape include the conflict between Russia and the Ukraine and continuing concerns about China's ability to sustain high levels of growth and service debt.

But closer to home, there's much good news on the UK economy – unemployment is falling, the pace of the recovery is quickening, there's increased optimism abroad alongside an upward revision of UK growth prospects for the remainder of 2014.

A rise may arrive sooner to stall higher rates in the future. Such a move would fit the scenario described by outgoing Monetary Policy Committee member, Charlie Bean, where 3 per cent could be the new normal for base rate. The Bank has also said it is unlikely that we'll see a return to the 5 per cent level seen as normal in the years before the financial crisis.

As ever, it's a case of 'watch this space' as we head towards 2015.



ALL CHANGE - NEW ISA RULES CAME INTO EFFECT IN JULY

From 1 July 2014, ISAs (Individual Savings Accounts) were reformed into a new and simpler product. This change was announced in the March 2014 Budget when the Government unveiled the 'New ISA' (NISA), a move that represents the biggest-ever increase to ISA limits.

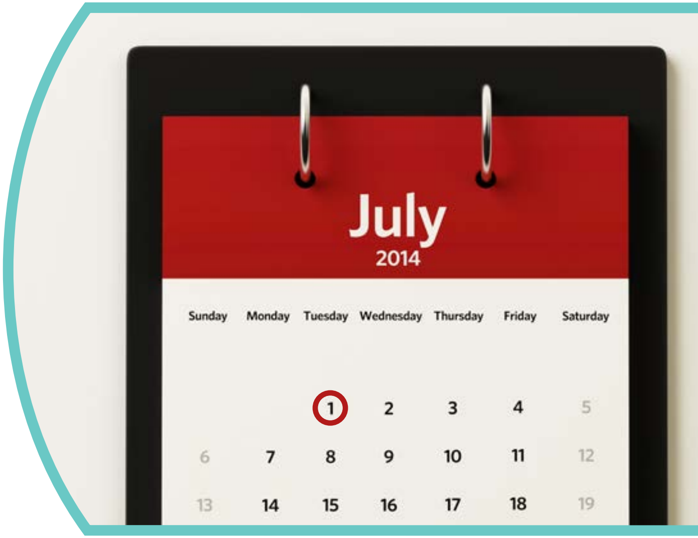
The NISA annual limit is now £15,000. The key features worth noting are:

Improved flexibility – the new rules mean you can split your ISA allowance as you wish between a New Cash ISA and New Stocks & Shares ISA. Previously, you could only save up to half the ISA allowance in a Cash ISA.

Improved transfer options – you can transfer from a Stocks & Shares ISA to a Cash ISA, and vice versa subject to the ISA provider's agreed terms and conditions. Under previous rules you could only transfer from a Cash ISA to a Stocks & Shares ISA.

Tax-free interest in Stocks & Shares ISAs – you have always been able to hold cash in a Stocks & Shares ISA, but any interest is in effect paid net of basic rate tax. Under the new rules interest on cash held in a New Stocks & Shares ISA is completely tax-free.

This is good news for hard-pressed savers. Because you can put up to £15,000 in each year, you'll be able to quickly protect a greater amount of money in a tax-free savings pot.



BY DEGREES - SAVING FOR HIGHER EDUCATION

As the autumn term approaches, the ever-increasing cost of paying for higher education will be top of the mind for many parents. The sum needed can seem daunting; university tuition fees can be up to £9,000 a year, plus living costs, and for many families, there's the prospect of providing for more than one child. So, it pays to start saving as early as possible.

With some forward planning and good advice it is possible to accumulate a big enough savings pot to see your child or children through to graduation. There are a number of ways to save or invest. The decision as to which might be right for you will depend on a number of factors including:

- How early you can start to save
- How much you are looking to invest
- Your plans for your children's education
- How much flexibility you require with regard to withdrawing your savings

When you're looking to save a lump sum, it makes sense to do so as tax efficiently as possible. ISAs – Individual Savings Accounts – represent one of the best ways to do this, especially as the amount you can save annually rose to £15,000 with effect from 1 July.

You can choose a Cash ISA or a Stocks & Shares ISA. If you have several years to go before you need to pay out, and you're happy to take on some risk, then a Stocks & Shares ISA might be the right choice for you as your investment will be free of tax other than the ten percent deducted from UK company dividends.

As well as using your own ISA allowance, any child born on or after 1 September 2002 or before 3 January 2011 is eligible for a Junior ISA. From July 1 you can invest up to £4,000 each tax year with the returns being totally tax-free in the hands of the individual, even if the money is invested by the parent.

In addition there are companies who offer investment plans specifically designed to cover education costs. While these carry some risk, they offer the prospect of longer-term growth, so may be suitable if your child is still very young and your money has more time to grow.

Increasingly, grandparents are stepping in to help out with the cost of their grandchildren's education. This can be a tax-efficient solution, especially as capital can move down two generations, potentially saving inheritance tax both on the grandparents' and the parents' deaths. This could be done by direct payment of all or part of the school or university fees each year.

A good education can give your children the best start in life, so it makes sense to talk to your adviser as early as possible about your family's needs.

CITY CHAT

Border skirmishes

The widely divergent financial forecasts for an independent Scotland from the 'yes' and 'no' campaigns make one thing clear: accurate figures are elusive. Much depends on the divorce settlement. How would UK national debt be divided and who would fund Scottish state pensions?

A 'yes' vote by eligible Scottish residents on 18 September would have massive consequences. The Westminster government says Scotland would lose the pound sterling, but that may be an unenforceable threat. Scotland could peg its pound to sterling, as Ireland did for many years.

Scotland's financial institutions could be impacted. Standard Life has talked about possible relocation. Aberdeen Asset Management has declared neutrality and says it wouldn't move its HQ. And an independent Scotland would surely love to prise Bank of Scotland (established 1695, Edinburgh) from Lloyds.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. 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.