MONEY view

Summer 2015

ATLANTIC COAST ASSOCIATES
Independent Financial Advisers

Your Pensions, Savings, Investments and Protection newsletter from Atlantic Coast Associates

Let's TALK

It is likely that you will have a limited amount of time to devote to financial issues due to other commitments, such as work, personal interests and, perhaps, juggling the demands of a family life.

However, since you're reading this, it's also likely that you recognise the importance of making the right decisions to help ensure your money/investments work as hard as possible.

That's why it makes sense to take professional financial advice, and not simply because of your time constraints, but to take advantage of some of the key developments that have occurred in the financial services sector over the last year or so.

In that period, we've seen the introduction of the new pension freedoms, additional opportunities for Individual Savings Accounts (ISAs), with changes to the death tax levied (or not) for both areas. On top of this, there's a new UK government, an EU referendum on the horizon and continuing issues within the Eurozone, plus, we've had the Budget in July.

The Summer Budget

This Budget introduced a whole host of initiatives, such as:

- **The family home could be removed from Inheritance Tax** - with an extra allowance of £175,000 by 2020/21 for those eligible, on top of the current thresholds, meaning a surviving spouse or civil partner could, by 2020/21, have a tax-free allowance of £1m.
- **Restricting tax-relief for wealthier landlords** - the tax relief for all will be restricted to 20% by April 2020.
- **Limits to paying into pensions for some** - although on the upside there is the possibility to pay in £80,000 this tax year.
- **Reform to the dividend tax** - which is replaced by a new £5,000 tax-free dividend allowance for all taxpayers from April 2016.
- **Corporation tax to be cut** - reducing from the current 20% to 18% by 2020/21.
- **Child tax credit changes** - this will be limited to two children for children born from April 2017.
- **Increase in tax-free Personal Allowance** - which rises to £11,000 for 2016/17.

Overall, it was a Budget full of news, so do get in touch if you'd like to assess how some of the above issues (or other Budget announcements) may affect you.

Preference for face-to-face

With all these developments in the financial services sector, it's no wonder that recent research from Newcastle Building Society, shows that over 90% of those surveyed preferred face-to-face financial advice. *(Source: Newcastle Building Society, January 2015)*

And, if we've not done so already, now is possibly a good time to have that chat. Particularly as the impact of the new pension freedoms means that the 'advice' process is now less about what you are allowed to do by product providers and more about those providers developing products that are better designed to meet your needs.

Solutions for you

For our part, we'd listen to what you require and then paint a picture of the life you want to lead, and identify the areas and products that may help to deliver this.

And when we see research from Standard Life showing that, on average, UK adults only see eight years into the future for their financial needs, we recognise that we can work with you to help frame a longer term view across the next 10, 20, 30+ years. *(Source: Standard Life, March 2015)*

So, whatever your life stage, attitude to risk, and tax position may be, it makes sense to talk.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Welcome....

to this newsletter, which covers some of the key issues of the moment that may affect your financial wealth.

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Dash for CASH?

Since 6 April 2015, anyone aged 55 or over has been able to take their entire 'defined contribution' pension fund however they want.

» This decision has allowed most planholders to draw down as much, or as little of their pension, at any time.

And it's not just pension planholders coming up to retirement who are considering this issue. It will also impact upon those in the workplace who are looking to build up their pension pot (or thinking about taking one out), and recognising that the new rules may require a change in strategy.

The expanded range of choices means that power has now shifted to the consumer, who can shop around and devise a multitude of product combinations - even taking it all as cash!

1 Access to cash

The first 25% of the pension pot will be tax-free either as one lump sum, or as the first 25% of multiple lump sums. The remaining 75% would be taxed at the person's marginal rate.

According to the Chancellor, George Osborne, about 60,000 have so far accessed their pension pot, taking out more than £1bn (about £17,000 per person, on average).

(Source: House of Commons, Hansard, June 2015)

This will deliver a nice tax take for the government, so you need to be aware that choosing this route could generate a sizeable tax bill, and possibly push some into a higher income tax band. Also, in some cases, a person may initially be charged at a higher emergency tax rate.

Furthermore, there have also been some issues where those trying to access their cash are finding themselves being hit by large exit penalties from the providers, or are simply not being offered the full range of flexibilities. That's why it's vital that you do take advice first.

2 Uncrystallised Funds Pension Lump Sum

These funds are 'uncrystallised', as they have not yet been used to pay a scheme pension, buy an annuity, or designated to a flexi-access drawdown fund. As it stands, your pension pot would remain as currently invested, or can be taken partly, or all, as cash.

3 Annuities

Historically, three-quarters of the 320,000 or so that retire each year had opted for an annuity, which offers a regular guaranteed income. And, for many, this certainty of payment may mean that it's still the best option. *(Source: HM Treasury, March 2014)*

The pay-off for 'certainty' had been a lack of 'flexibility'. Although, in the brave new world, annuities are likely to become more flexible, which may include:

- The opportunity to withdraw lump sums, or take variable amounts, perhaps in the early years of retirement.
- Improved 'guarantees' so that the beneficiaries don't lose out in the event of an early death within the annuity period.

Additionally, there is a growing awareness that you should shop around for the best annuity deal, known as the **Open Market Option.** And, as part of that process, if you happen to face a specific health or lifestyle issue such as diabetes, cancer, a heart condition, or from being a smoker, then you may qualify for an **enhanced annuity,** which pays out more. It does this because the product provider has factored in that you're not expected to live as long. It's then down to you to beat the odds!

4 Flexi-access Drawdown

At the other end of the scale are **drawdown** products, which could potentially offer a better return but do come with a higher degree of risk, as you'll still be investing in the stock markets, etc.

Previously, this offering was more appropriate to those who had sizeable pension pots, and were less averse to risk. Under the new reforms, this sector has also expanded with the introduction of **flexi-access drawdown funds** (the format for all new drawdown plans).

These are designed to cater for more needs on the risk scale and fund size; with the previous restrictive rules affecting how much you can take out, being swept away.

Drawdown planholders who took out their plan prior to 6 April 2015 can also enjoy these freedoms, if wanted, by converting to flexi-access.

5 Blended solutions

The likelihood, for many, is that they may opt for a mix of immediate cash, annuity and flexi-access drawdown - thereby meeting current needs, delivering a guaranteed income for life, yet also leaving some funds invested in the hope of future growth.

With drawdown and annuities there are already new options and, no doubt, more will be introduced as the industry gets to grips with the reforms.

Whatever you opt for, it's essential that you take advice before you act. HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

GROW your own

With much talk these days about the pension reforms and planning for retirement, you'll still require funds for specific purposes across your whole lifespan.

» You may have a number of goals that you'd like to achieve, such as:

- Meeting the costs of life events, like school fees, university costs, weddings, a new car and, perhaps, a once-in-a-lifetime holiday experience.
- Undertaking improvements to your current home, moving up the property ladder, or looking to secure an additional one elsewhere in the UK, or overseas.
- Providing a financial buffer to deliver breathing space should you face illness, unemployment, or unexpected household costs.
- Ability to offer financial support to help get your children (or grandchildren) onto the property ladder, or to assist your parents with long-term care.

Securing the funds

The current low interest rates may mean that you'll probably be unable to achieve what you need simply through the return on your savings. So you may have to consider other options, to establish if you can get better returns elsewhere.

For example, while past performance is no guarantee to future returns, had you placed your money within a savings account since 1994, the average annual inflation-adjusted return across the 20 year period would have been just 1.1%. Elsewhere, the riskier option of property or UK equities would have delivered returns of 5.7% and 4.6%, respectively.

(Sources: Barclays Capital, Equity Gilt Study and Investment Property Databank figures to end of 2014)

Your investment strategy

To some extent the **economic outlook** will help shape your investment approach. Of course, everyone will have different objectives, which are dictated by **life stage, attitude to risk, available funds, tax position,** and also if they primarily require **income** or **growth.**

For most investors, it's sensible to spread the investment net in order to deliver measured growth. And, in general, to play the longer-game, rather than chasing potential short-term fluctuations here and there.

Broadly, if you were to consider four key asset classes: **equities, property, fixed interest** (such as government gilts/corporate bonds) and **cash** - it's equities that are likely to deliver the greatest level of risk (and potential reward).

Diversification is key

There's no rule that says you must have a balanced portfolio that embraces the asset classes mentioned above, or that you have to have it within a spread of UK and overseas sectors, industries or companies - but diversification possibly makes sense.

This is where we can help with the input of our experience, skill and market knowledge, to help you along the way. We would assess your needs, get a feel for the degree of risk that you're comfortable with and see how we can help meet your objectives.

With regard to the best choices, history shows, if you take a look at the chart below, the best performing sectors in one year, may not be the best choice in subsequent ones. Take the returns for Europe, which topped this chart in 2012, yet was the worst performer in 2014.

So do get in touch if you want to talk further about your existing portfolio, or planned investment approach.

The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

Past performance is not a guide to future performance.

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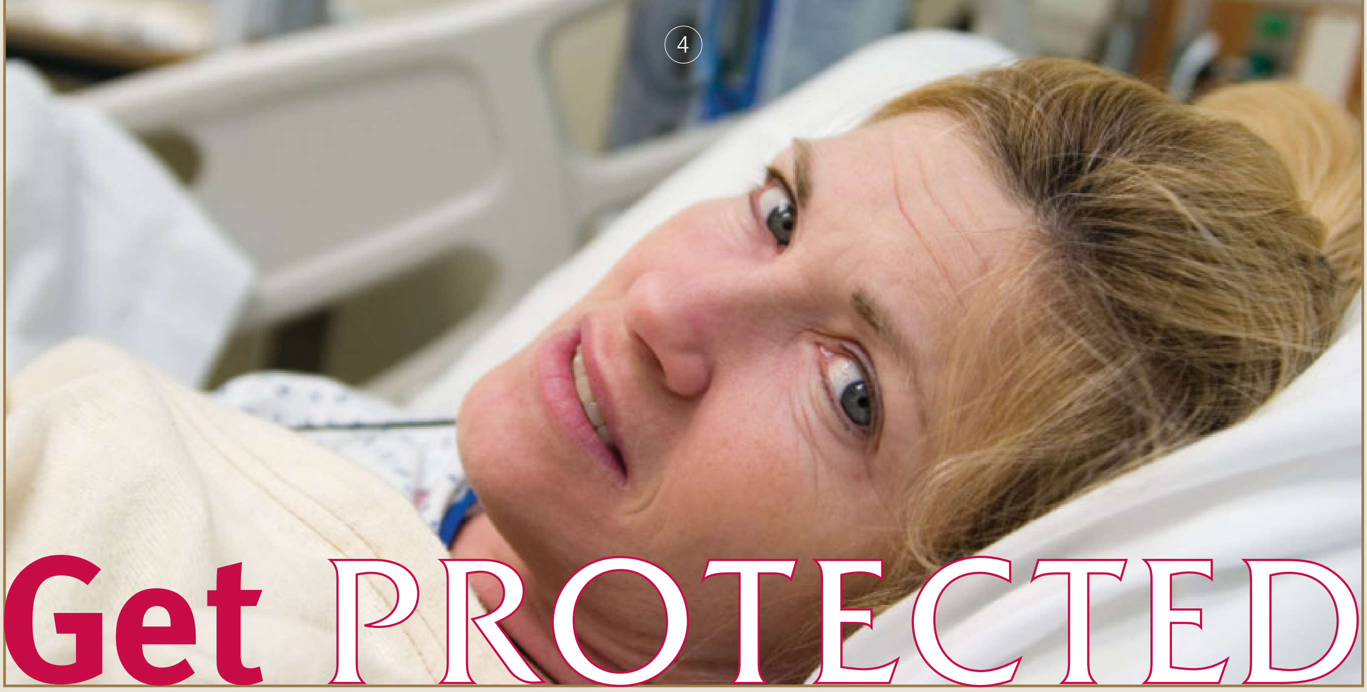
Example of comparative returns by a range of sectors across a 10 year period

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Best Performing	Emerging Markets 49.9%	Europe (exc. UK) 19.1%	Asia Pacific 35.7%	Japan -2.3%	Emerging Markets 58.1%	Asia Pacific 23.7%	Corporate Bond 5.6%	Europe (exc. UK) 19.6%	North America 31.0%	North America 17.7%
	Japan 43.2%	UK 18.1%	Emerging Markets 35.0%	Corporate Bond -9.0%	Asia Pacific 52.2%	Emerging Markets 22.6%	North America -1.8%	Asia Pacific 17.3%	UK 26.7%	Corporate Bond 10.6%
	Asia Pacific 34.5%	Asia Pacific 17.1%	Europe (exc. UK) 13.3%	North America -18.6%	UK 30.7%	Japan 19.1%	UK -3.7%	UK 15.8%	Japan 26.3%	Asia Pacific 9.7%
	Europe (exc. UK) 25.6%	Emerging Markets 15.6%	North America 5.3%	Europe (exc. UK) -24.9%	Europe (exc. UK) 19.9%	North America 17.8%	Japan -11.2%	Corporate Bond 14.2%	Europe (exc. UK) 26.2%	Emerging Markets 3.0%
	UK 21.4%	Corporate Bond 0.5%	UK 2.2%	UK -31.8%	North America 19.6%	UK 17.1%	Europe (exc. UK) -15.3%	Emerging Markets 12.6%	Asia Pacific 2.1%	UK 0.8%
	North America 19.2%	North America -1.3%	Corporate Bond 0.7%	Asia Pacific -33.0%	Corporate Bond 16.1%	Corporate Bond 8.9%	Asia Pacific -15.7%	North America 7.5%	Corporate Bond 1.4%	Japan 0.6%
Worst Performing	Corporate Bond 8.0%	Japan -13.7%	Japan -10.7%	Emerging Markets -36.8%	Japan -5.2%	Europe (exc. UK) 8.8%	Emerging Markets -19.1%	Japan 3.6%	Emerging Markets -4.0%	Europe (exc. UK) -0.8%

Source: Thomson Reuters/Lipper - Investment Association classifications, end of year position 2005-2014, sourced July 2015



Get PROTECTED

Many of us will happily insure our mobile, pet, or household appliances, yet often neglect to protect the income stream of the main wage earners who fund this and much more.

» That's why it's important to have adequate protection in place to cover the mortgage, alongside the day-to-day living expenses, should a main wage earner be unable to work due to illness, injury, or worse still, death.

While, across the board, the take-up of protection products still remains fairly low, it does seem that more and more are jumping on board as they recognise the benefits and peace of mind that this can bring.

For example, UK family research from Aviva shows that:

- 42% have **Life Cover** in place (up from 36% in July 2014).
- 10% have **Income Protection** (up from 7%).
- 16% have **Critical Illness** (up from 11%).

(Source: Aviva, Family Finances Report, December 2014)

The product areas

There are a multitude of plans on offer to meet varying needs and circumstances, but let's consider three key areas:

- Protection should you die. This is on offer through various forms of Life Cover, or schemes such as Family Income Benefit.
- Protection to deliver a regular income should you fall ill, or suffer an injury meaning that you may be off work for a considerable period of time. An Income Protection policy is the main option on offer here.
- Protection to pay out a lump sum should you suffer a serious illness such as a heart attack, cancer or a stroke. In this respect, a Critical Illness policy may meet that need.

In all cases you need to be aware that certain restrictions may apply and you must be honest, at the outset, when filling out the forms.

Product enhancements

The insurers are also constantly fine-tuning and developing their product offerings to ensure that they meet and reflect consumer needs, with the following being examples of this:

- rewarding clients for taking greater responsibility for their health, with initiatives such as discounted health club membership.
- plans that payout should you fall ill, or suffer an injury and are off work for a considerable period of time, are now more likely to do so, as more now accept 'being unable to undertake your own occupation', rather than 'any occupation'.
- providers have started to expand the range of illnesses covered for plans that are designed to pay out a lump sum should you suffer a serious illness such as a heart attack, cancer or a stroke, again generating a greater likelihood of a payout.

These are just a few examples of why it makes sense to take advice to ensure you opt for the best plan(s) that meets your needs - as the options can be quite complex, and it's not just about which is the cheapest.

As with all insurance policies, terms, conditions and exclusions will apply.

DO THE POLICIES REALLY PAY OUT?

The industry is well aware that a sizeable number of people simply don't believe that most claims are paid. Yet well over 90% of them are met, resulting in an average daily payout of over £8m. The latest annual figures show that there were almost 100,000 successful claims, with an average payout of £31,140.

Broadly, the average individual payouts for the three sectors mentioned above are:

Life Cover = around £28,000
Income Protection = around £12,000
Critical Illness = around £60,000

(Source: Association of British Insurers, 2013 statistics, released May 2014)

ISA benefits

In addition to keeping a regular watch over the performance of your investment portfolio, you also need to consider taking advantage of the various 'tax-efficient wrappers' that are on offer.

Probably the best known option is Individual Savings Accounts (ISAs), where recent developments have added further benefits.

An ISA is basically a 'wrapper' into which you can place cash or stocks and shares up to a certain limit each year. For the 2015/16 tax year the total individual limit is £15,240. Which means that a couple, for example, could place just over £30,000 this year!

Within the ISA, any interest, income or growth that you receive will be free from any personal liability to income or capital gains tax. And to give you a feel for what this could amount to, if you had used all of your individual ISA allowances since its launch in 1999, this could have added up to over £151,000 of investments, with any growth on that amount being sheltered from tax.

More flexibility

From this tax year a greater level of flexibility has also been afforded. Savers have now been given the freedom to take money out of their ISA and put it back in later in the year, without losing the ISA tax benefits, as long as the repayment is made in the same financial year as the withdrawal.

Leave it to the last minute?

You are probably aware of the raft of advertising that appears in the run-up to the end of the tax year on 5 April reminding people to 'use up their ISA allowance'.

However, in the same way that dogs aren't just for Christmas, an ISA isn't just to be taken up in March/April. In fact, research from Fidelity shows that if someone took their full ISA allowance at the start of every financial year since 2004/5, and invested in a fund that tracked the FTSE All-Share Index, they could now be over £10,000 better off. The £101,080 invested (if untouched) would have risen to £154,055, rather than £143,850, had it been left until the last day of the tax year to take up the full allowance.

(Source: Fidelity, example of investments made between 6 April 2004 and 5 April 2015, April 2015 release)

Help-to-Buy ISA

This scheme will launch 1 December 2015, and is effectively a tax cut for first-time buyers, as the initiative will see the government deliver a 25% bonus to help towards the deposit.

It would enable the first-time buyer to save up to £200 a month towards their first home, receiving, for example, a £50 bonus for every £200 saved. This 25% boost would be applied up to a maximum overall bonus of £3,000.

Even better, the scheme is linked to one per person, rather than one per home, so those buying together could both benefit.

The bonus would be paid out when buying a first home that meets the eligibility criteria - up to £450,000 for a London property, and up to £250,000 elsewhere in the UK.

Do get in touch if you'd like to find out more about this scheme, or ISAs in general.

A stocks and shares ISA is a medium to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

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.

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Death & ISAs

According to HM Revenue & Customs, 150,000 married ISA savers die each year.

In a further rule change, ISAs can now be passed on to the surviving spouse, or civil partner tax-free on death.

Previously the ISA tax 'wrapper' passed away with its owner, and the money that had been sheltered became liable for income and capital gains tax.

The surviving partner will now be able to invest as much into their own ISA as their spouse/civil partner used to have, on top of their usual allowance.

Budget news

FAMILY HOME TAKEN OUT OF INHERITANCE TAX

Inheritance Tax (IHT) is currently charged at 40% on estates over the tax-free allowance of £325,000 per person. Married couples and civil partners can pass any unused allowance on to one another.

From April 2017, each individual will be offered a further 'family home allowance' to help pass their home on to their children or grandchildren tax-free after their death.

This will be phased in from 2017/18. The family home allowance will be added to the existing £325,000 Inheritance Tax threshold, meaning the total tax-free allowance for a surviving spouse or civil partner will be up to £1 million by 2020/21.

Anyone with a home worth more than £2m would receive only some, or none, of the benefits of the new ruling.

LIMITS TO PAYING INTO PENSIONS

Most people can contribute up to £40,000 a year to their pension tax-free. From April 2016, this amount will be reduced for individuals with incomes of over £150,000.

To possibly soften the blow for higher earners, savers have been awarded an extra £40,000 allowance between now and the end of the tax year. This means that those who have already used up their full £40,000 allowance in this tax year (before 9 July 2015), will be able to pay in a total of £80,000 this year.

Additionally, it's also possible to carry forward unused allowances from the previous three years.

PERSONAL ALLOWANCE

This is the tax-free amount that people earn before they have to start paying Income Tax - and it will increase to £11,000 for the 2016/17 tax year.

Increases to the Personal Allowance since 2010, when it was £6,475, mean that a typical taxpayer will be £905 a year better off in 2016/17.

HOW PENSIONS ARE TAXED

It was announced in the Budget that a Green Paper is to be published on proposals for 'a radical change' to the pension saving system. This paper will look at the point at which pensions are taxed and is designed to get the conversation going.

RESTRICTING TAX-RELIEF FOR WEALTHIER LANDLORDS

Currently, individual landlords can deduct their costs - including mortgage interest - from their profits before they pay tax. Wealthier landlords receive tax relief at 40% and 45%. This tax relief will be restricted to 20% for all individuals by April 2020.

REFORMING DIVIDEND TAX

The dividend tax credit (which reduces the amount of tax paid on income from shares) will be replaced by a new £5,000 tax-free dividend allowance for all taxpayers from April 2016. Tax rates on dividend income will be increased.

CORPORATION TAX WILL BE CUT

The main rate of Corporation Tax was cut from 28% in 2010 to 20%, and will fall further to 19% for the 2017/18 tax year, and then to 18% in 2020/21.

CHILD TAX CREDIT

This will be limited to two children for children born from April 2017 (with, for example, provisions for multiple births).

NATIONAL LIVING WAGE

From April 2016, a new National Living Wage of £7.20 an hour for the over 25s will be introduced. This will rise to over £9 an hour by 2020.

(Source: Selected announcements, Budget, July 2015)

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■ The contents of this newsletter are believed to be correct at the date of publication (July 2015).

■ Every care is taken that the information in *Money View* is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature and does not constitute advice. You should seek professional advice tailored to your needs and circumstances before making any decisions.

■ We cover pensions, savings, investments and protection products, along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs:
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