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JANUARY/FEBRUARY 2013

TAX-SAVING IDEAS TO BEAT THE END OF TAX YEAR

Now is the time you should be reviewing your financial affairs

AUTUMN STATEMENT 2012

Key announcements from the Chancellor at a glance

KEEPING A WATCHFUL EYE ON YOUR MONEY

Taxing times for the average 50-year old

DO YOU NEED GROWTH, INCOME OR BOTH?

Preparing for whatever economic ups and downs might be ahead

WHAT CHALLENGES LIE AHEAD FOR INVESTORS IN 2013?

Navigating your way around a wide range of investment products and strategies

Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US

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EDITORIAL

Although making resolutions to improve your financial situation is good whatever the time of year, many people find it easier at the beginning of a New Year. Regardless of when you begin, the basics remain the same. So it's with this in mind that we have provided a number of ideas inside this issue to get you ahead financially.

In a period of slow global growth, aggressive central bank actions and near paralysis on the part of many fiscal policy makers, investors enter 2013 facing a plethora of challenges. On page 10 we look at the three main hot topics that are likely to impact on making investment decisions over the next 12 months: China, the US and the Eurozone.

With the end of the tax year rapidly approaching on 5 April, now is the time to focus on ways to mitigate any tax liability. To make the most of the opportunities available, if you've not already done so, you should start putting plans in place now. On page 14 we consider some of the areas you may need to review to minimise a potential tax liability.

This tax year 2012/13, you can shelter up to £11,280 from tax by investing in an Individual Savings Account (ISA), and the good news is that the Chancellor, George Osborne, announced during his Autumn Statement last December plans to increase the ISA limit to £11,520 from 6 April this year. To make the most of the current tax year's allowance, you need to act before the fast-approaching deadline. Read the full article on the opposite page. A full list of all the articles featured in this edition appears on page 3. ■

The content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

HAPPY ISA TAX YEAR

Don't get bitten - talk to us

This tax year you can shelter up to £11,280 from tax by investing in an Individual Savings Account (ISA). During his Autumn Statement last December, the Chancellor, George Osborne, announced plans to increase the ISA limit to £11,520 from 6 April this year.

ISA ALLOWANCE

Each tax year you have an ISA allowance. For the tax year 2012/2013 (6 April 2012 until 5 April 2013) you can save up to £5,640 in a Cash ISA with the remainder in a Stocks & Shares ISA, or you can invest your full allowance in a Stocks & Shares ISA. You're only permitted to invest with one Cash ISA provider in each tax year and the same, or another, Stocks & Shares ISA provider.

MAKE UP ANY UNUSED SHORTFALL

If you haven't already used up your full ISA allowance you can't retrospectively make up any unused shortfall later – it's lost forever. UK residents aged 16 and over can choose to save in a Cash ISA or, if they are 18 or over, a Stocks & Shares ISA or a combination of both. Parents or guardians can also open a Junior ISA for children under 18.

The interest on a Cash ISA isn't taxed, so all the interest you earn you keep. With a Stocks & Shares ISA, all gains are free from Capital Gains Tax and you don't need to declare your ISA investments to the taxman. ■

The value of investments and the income from them can go down as well as up, and you may not get back the full amount invested. The tax benefits and liabilities will depend on individual circumstances and may change in the future. Past performance is not a guide to the future.

DISCUSS YOUR ISA OPTIONS - DON'T DELAY

Whether you're new to investing or looking to grow your portfolio, we can help – please contact us to find out more.

INHERITANCE TAX, ONE OF LIFE'S UNPLEASANT FACTS

Reducing the size of your estate through increased spending or gifting

Inheritance tax (IHT) is generally payable upon death and during the life of someone where they give away assets. IHT can be reduced significantly by tax planning in advance.

Everyone is entitled to an IHT-free allowance of £325,000 in the current 2012/13 tax year. A married couple or registered civil partnership would therefore generally have no IHT to pay if their estate on second death is less than £650,000. The IHT allowance threshold which has been frozen at £325,000 since 2009 is set to increase to £329,000 in 2015/16.

While net estate values might be less than £650,000 now because of a mortgage or some other liability or loan, it is possible that at the time of death the estate will be worth much more as debt is being paid off. Over the IHT tax-free allowance band, IHT is paid at 40 per cent and so it is a significant tax charge levied on your assets.

REDUCING A POTENTIAL IHT BILL

IHT needs to be considered by everyone. These are some areas you may wish to discuss with us to mitigate a potential IHT bill:

- Giving allowable amounts of money regularly to your children or others each year out of income
- Passing wealth down to the next generation seven years before death
- Using family trusts to hold capital
- Making sure your business qualifies for full IHT relief
- Swapping certain assets that attract IHT to assets that can be free of IHT after two years
- Giving to charity
- Making sure your wills are drafted properly
- Making sure your holiday letting meets the trading tests

DON'T LEAVE YOUR FAMILY WITH A TAX BILL

If you have significant wealth you need to consider IHT at an early stage. To discuss the options available to you, please contact us ■

The Financial Services Authority does not regulate estate planning, wills or trusts.

AUTUMN STATEMENT 2012

Key announcements from the Chancellor at a glance

ECONOMIC GROWTH

- Forecasts for the next few years are: 1.2% in 2013, 2% in 2014, 2.3% in 2015, 2.7% in 2016 and 2.8% in 2017.

PENSIONS AND BENEFITS

- Most working-age benefits to rise by 1% for each of the next three years.
- From 2014/15 lifetime pension relief allowance to fall from £1.5m to £1.25m – annual allowance cut from £50,000 to £40,000.
- Capped drawdown limit increased for pensioners of all ages with these arrangements from 100% to 120% of the value of an equivalent annuity.
- Basic state pension to rise by 2.5% to £110.15 a week.
- Child benefit to rise by 1% for two years from April 2014.

TAXES AND ALLOWANCES

- Personal basic income tax allowance for those aged under 65 increasing by £1,335 in cash terms to £9,440 in 2013/14.
- Higher rate threshold to rise to £41,450 in 2013/14, to £41,865 in 2014/15, and in 2015/16 it will be £42,285.
- Main rate of corporation tax to be cut by extra 1% to 21% from April 2014.
- Capital gains annual exempt will increase to £11,000 in 2014/15 and £11,100 in 2015/16.
- Temporary doubling of small business rate relief scheme to be extended by further year to April 2014.
- Inheritance tax threshold to be increased to £329,000 in 2015/16.
- Bank levy rate to be increased to 0.130%.
- £5bn over six years expected from treaty with Switzerland to deal with undisclosed bank accounts.
- ISA contribution limit to be raised to £11,520 from 6 April.
- Prosecutions for tax evasions up 80%, with anti-abuse rule to come in.

OUTLOOK FOR THE NEW CENTENARIANS

Financial pressures to snowball for future generation

A generation of 'New Centenarians' will be forced to work well into their 70s to stay afloat, according to new research from Scottish Widows. In addition to working longer, they will face a hat-trick of financial pressures as early as their mid-twenties, with the stresses of saving for their first home, paying back their student loans and starting a retirement fund impacting on them much earlier than other generations.

The Office for National Statistics believes that one in three babies born in 2012 in the United Kingdom will live to be 100. This unsurpassed average life expectancy, combined with the rising costs of living, education and housing, means that our children and grandchildren will need to plan much earlier for their future and work for longer than ever before.

The Scottish Widows survey of 1,000 parents with children under the age of five reveals that nearly 78 per cent are concerned that their children may need to work well into their 70s.

Leading economist and trend forecaster Steve Lucas of Development Economics analysed the financial and life milestones that babies born in 2012 will reach before they turn 100. Looking backwards from 2112, the research paints a picture of what life might look like for these babies and examines the steps an average New Centenarian will have taken throughout life in comparison to his or her parents and grandparents.

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THE PERSONAL FINANCIAL LANDSCAPE 100 YEARS IN THE FUTURE

Changes to ways that student loans (and, for many people, high tuition fees) are provided mean that those New Centenarians who complete higher education could be paying off their student debts of £73,000 until they are 52 years old.

Couples will increasingly delay having their first child until they are in their early 30s, compared to their late 20s now. An increasing proportion of people will either have no children or just one child. After the purchase of their home, considering the financial burden of having children is probably the most important financial decision they will face in their lives.

Financial products are likely to change to allow for mortgages to be paid over a longer period of time due to people working longer and increased life expectancy. New Centenarians are likely to be paying off their mortgage until they are at least 61, four years later than their parents and seven years later than their grandparents.

In order for New Centenarians to provide an acceptable standard of living for themselves in old age, a pension pot of £2.4m in retirement savings will need to start sooner.

The cost of social care is likely to be another major concern for this future generation. Many New Centenarians will need to contribute financially to the care costs of their parents' generation, as well as try to put some funds aside for their own care costs in their final years.

NATURE OF WORK IS LIKELY TO CHANGE

The state retirement age will be at least 70 by the turn of the next century and an increasing proportion of people will continue working well into their 70s, either because they can't afford to retire or because they feel it is in their best interest to continue working.

However, the nature of their work is likely to change. According to Lucas, 'In the future, older workers – especially in the professional and business services sector – are likely to stay working longer into their 70s, but the nature of this work will become more flexible and probably more part-time. Workers in manual or vocational careers are also likely to look to extend their working lives by undertaking a less strenuous, more part-time role.'

However, this means that New Centenarians could be supporting themselves with a potentially limited income for up to 30 years of retirement. In order to properly prepare for prolonged retirement and counter the effects of the collision of financial pressures, Lucas explains that New Centenarians will need to begin saving for their retirement from at least age 25 and that parents should encourage their children to start understanding finances and the importance of saving from a young age.

IT ISN'T ALL DOOM AND GLOOM FOR THIS GENERATION

Almost 45 per cent are concerned that their children will not be able to save enough money for a longer retirement. Yet almost 40 per cent of parents are not considering their child's long-term future as part of their financial planning and half of all parents would not consider starting a pension for their child on their first birthday.

However, it isn't all doom and gloom for this generation, as 41 per cent of parents are excited about the potential for long-lasting family relationships and a further 37 per cent are pleased to think their children will accomplish more in life because they will be healthier longer. ■

SAVING ENOUGH FOR A RETIREMENT OF 30 YEARS OR MORE

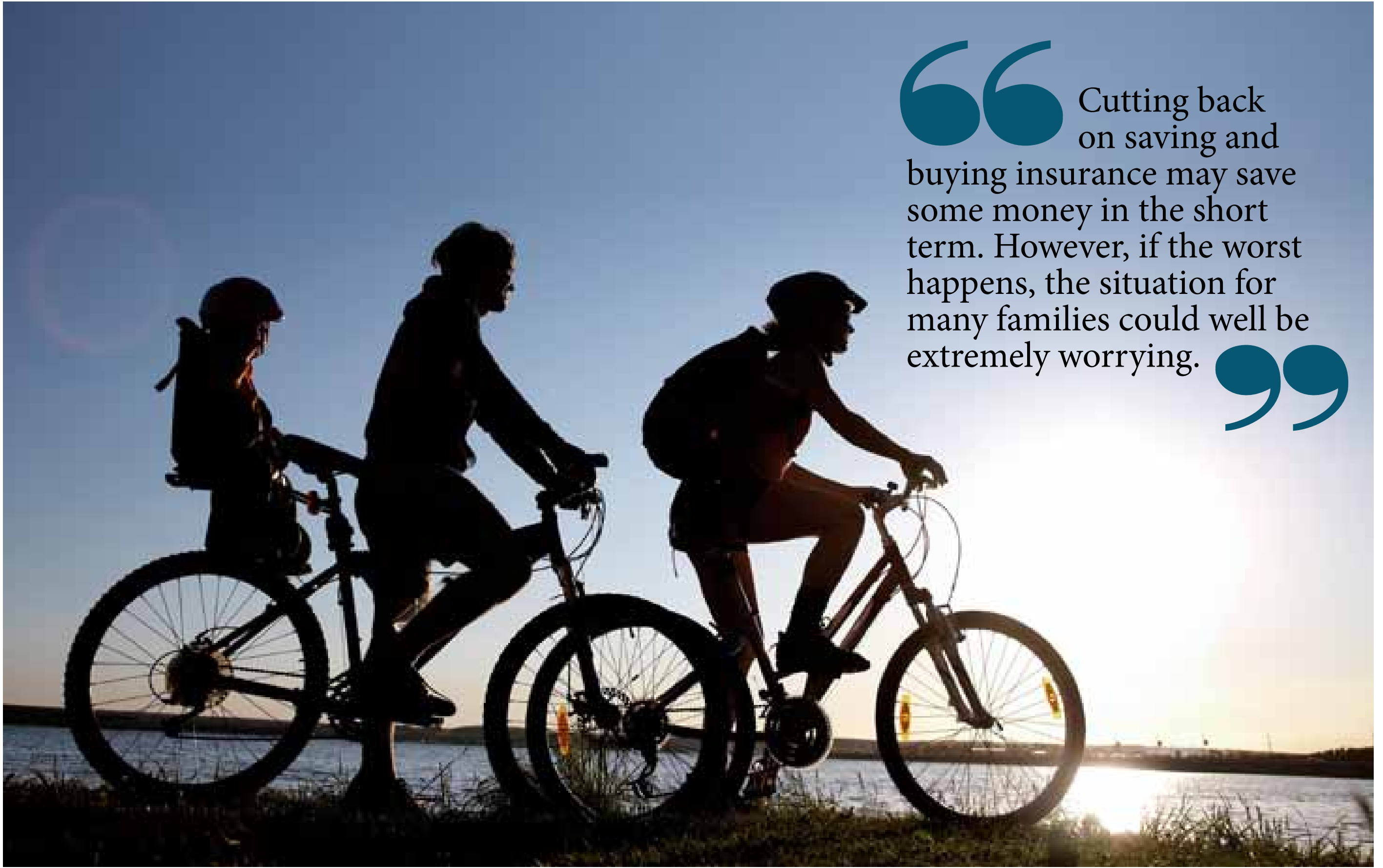
The dramatic speed at which life expectancy is increasing means we need to radically rethink our perceptions of life, especially for our children. Most workers today expect their pension to fund a retirement of up to 20 years but increased life expectancy means New Centenarians may have to save enough for a retirement of 30 years or more. To discuss how we could help you plan for your children's and grandchildren's future, please contact us for further information. Don't leave it to chance.

This research was undertaken based on past and expected future demographic trends using published research and data from the Office for National Statistics (ONS); this included trend data on life expectancy, healthy life expectancy, fertility, marriage, divorce, having children, commencement of working lives and ages of retirement. ONS data was also used to estimate expected future trends for financial matters including earnings, rents, house prices, mortgage costs and retirement incomes. A range of other information sources – published and unpublished – were utilised to obtain insights into recent and expected future social trends.

Estimates of future financial costs – including earnings, housing costs, student debt and retirement savings – were calculated using bespoke economic and financial models developed by the authors of the research. These figures were estimated by projected-forward underlying trends evident in existing datasets, coupled as appropriate with trend-based inflation assumptions.

The main exception is in the area of future student debt, where a new system is currently being introduced and for which current data cannot be used to construct forward estimates. In this case future estimates were based on a literature review of estimated future student debt liabilities, using sources including the Department for Education, the National Union of Students and student loan companies.

2.4M
The pension pot New Centenarians will need to provide an acceptable standard of living for themselves in old age.



WOULD YOU BE VULNERABLE IN THE EVENT OF A FINANCIAL CATASTROPHE?

New figures reveal families aren’t prepared financially for when the worst happens

Legal & General’s first ‘Deadline to the Breadline Report’ published in December last year has revealed that the average British family has just 19 days before its savings would run out if the main breadwinner is unable to work for any reason. This ‘’deadline to the breadline’ - the length of time the average household could last on savings following a sudden loss of income due to long term sickness, injury, critical illness or death.

FAMILIES AREN’T PREPARED FINANCIALLY

The aim of Legal & General's Deadline to the Breadline Report is to shed a light on the financial health of the average British household and to stimulate debate in the industry about what we can do to help consumers better understand the dangers of failing to protect themselves against financial disaster. It’s concerning to see that the average UK family has a ‘deadline to the breadline’ of just 19 days. Clearly, families aren’t prepared financially for when the worst happens - loss of income, critical illness or death- and the sad reality is that they need to be ready.

Legal & General's Deadline to the Breadline Report is the first of a series of publications that will track the financial health of the nation's households and provide a means of tracking that “health” as the economy changes over the next few years.

Key findings of this first report include:

Families in the South East of England have the longest Deadline to the Breadline, but would still on average last just over a month - 37 days - before their savings would be used up;

This is two weeks more than the next two regions with the North West at 22 days and the South West at 21 days;

Households in the West Midlands came out as the least prepared with a 'deadline to the breadline' of just seven days.

‘MUDDLING THROUGH’ APPROACH

We all know how tough it is for families at the moment. For many, simply making ends meet and staying in regular employment is a daily challenge. But the loss of regular income would render the ‘muddling through’ approach that many households are taking right now impossible. Cutting back on saving and buying insurance may save some money in the short term. However, if the worst happens, the situation for many families could well be extremely worrying. At times like this it is even more important that people consider how best they can plan for a financial catastrophe.

Please note this does not include Northern Ireland. ■

PROTECT YOUR STANDARD OF LIVING

There are a range of insurance products designed to help protect your standard of living. To discuss affordable ways that we can help you make sure your family’s life goes on even if you’re not around, don’t delay – please contact us today.

FLEXIBLE RETIREMENT PLANNING SOLUTIONS

Take the legwork out of your retirement planning

People are living longer and the number of retirees is growing. Longevity should be a blessing but many investors are worried they will outlive their savings. So it is essential to consider saving for retirement as early as possible and to decide where best to invest for your requirements.

DECIDING HOW TO PLAN

There is a bewildering choice when deciding how to plan for your retirement, and it is important to weigh up the cost and complexity against the potential returns. If appropriate, one option to consider is a Self-Invested Personal Pension (SIPP). Originally designed for people with higher-value pension funds, they've become more prevalent since the UK pension simplification legislation of 2006.

SIPPs are tax-efficient wrappers within which you can select your own pension investments from a wide variety of sources and choose how to spread your money among a whole range of different investment types subject to both HM Revenue & Customs rules and any limits set by the SIPP provider.

TAX-EFFICIENCY

A SIPP offers the same tax benefits as other personal pension plans, with personal contributions eligible for Income Tax relief and investments within the SIPP able to grow free of Capital Gains Tax.

INVESTMENT CHOICE

You can invest in a wide range of investments and this includes any number of approved funds. Most SIPP providers allow you to select from a range of assets, including:

- stocks and shares quoted on a recognised UK or overseas stock exchange
- government securities
- unit trusts
- investment companies
- insurance company funds
- traded endowment policies
- deposit accounts with banks and building societies
- National Savings products
- commercial property (such as offices, shops or factory premises)

RETIREMENT FLEXIBILITY

A SIPP allows you to choose from the full range of options at retirement, from purchasing an annuity to taking a managed income withdrawal from your fund.

SIPPs are tax-efficient wrappers within which you can select your own pension investments from a wide variety of sources and choose how to spread your money among a whole range of different investment types .

The SIPP wrapper is separate from the contents and, as such, has distinct, often fixed charges. Because you can now accumulate a number of pensions over your working life, consolidating them all into a SIPP means that you have one company carrying out your pension administration. This could reduce your reporting and paperwork; however, you should ensure that the additional investment options a SIPP provides are required, as it can cost more to administer than a normal personal pension plan.

SIPPs are appropriate for people comfortable with making their own investment decisions and are not a risk-free product. The capital may be at risk due to the investments held within this pension arrangement; the value of investments can go down as well as up and you could get back less than you invested. Tax reliefs will also depend on your personal circumstances and the pension and tax rules are subject to change by the government. ■

BUILDING A BIGGER PENSION

Before applying for a SIPP, you should seek professional financial advice. To find out how much you should be saving to help achieve your desired retirement income, contact us for further information.

Information is based on our current understanding of taxation legislation and regulations. A SIPP is a long-term investment, and 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.

WHAT CHALLENGES LIE AHEAD FOR INVESTORS IN 2013?

Navigating your way around a wide range of investment products and strategies

In a period of slow global growth, aggressive central bank actions and near paralysis on the part of many fiscal policy makers, investors enter 2013 facing a plethora of challenges.

There are three main hot topics that are likely to impact on making investment decisions over the next 12 months: China, the US and the Eurozone. Chinese monetary policy-making by the new leadership needs to tread a fine line between slowing economic growth, which could cause social unrest, and creating asset bubbles. A US debt ceiling breach around March 2013 could lead to draconian consequences if an agreement is not reached. Finally, the on-going Eurozone sovereign debt crisis – although steps have been taken in the right direction, Europe is still not fixed.

GOOD FINANCIAL PLANNING

Navigating your way around the plethora of investment options out there can be very daunting and requires professional financial advice. Before investing, you need to ask yourself a basic question. What are you investing for? Good investment requires good financial planning first of all. You must decide what your objectives are, what return you need to achieve that objective and what risk you are willing to take to achieve that return.

Deciding how much to invest in equities, fixed interest (gilts and corporate bonds), property and cash is the first step in constructing a portfolio. Many investors are understandably nervous about taking risks with their hard-earned capital during this current period but not taking enough risk can be just as damaging as taking too much.

TAKING A LONG-TERM VIEW

All asset classes carry risk – including cash, which can lose its spending power over time because of inflation. Most investors see risk as the risk of short-term price falls but fail to consider the risk that their investments will not grow fast enough to meet their objectives. Those who can afford to take a long-term view and see their capital fluctuate in value could consider taking more risk to try and achieve an inflation-beating return.

Shares are different from most goods in that demand often increases as prices rise. If an investment area is fashionable, it could be a sign that it is overvalued. Traditional areas, such as blue chip companies, often generate the best long-term returns, so it makes sense for most investors to avoid the latest fad. However, it is important to remember that all stock market investments will fluctuate in value, so you could get back less than you invest.

MAXIMUM USE OF TAX SHELTERS

Investors also need to make the maximum use of tax shelters as tax can eat away at your returns. These can include pensions and Individual Savings Accounts (ISAs) at one end of the spectrum to Enterprise Investment Schemes and Venture Capital Trusts at the other, higher-risk end.

Even following the proposals announced by the Chancellor, George Osborne, concerning pension tax relief in his Autumn Statement, pensions still offer very attractive tax benefits through the income tax relief you receive on the contributions.

In the current 2012/13 tax year, there is no tax to pay within an ISA on any capital gains and no further tax to pay on any income and you can shelter up to £11,280, which is set to rise to £11,520 from 6 April this year.

Having said this, making an investment decision based on a tax saving alone should not be the main consideration at the expense of the other rules of investing.

DIFFERENT AREAS PERFORM WELL AT DIFFERENT TIMES

An undiversified portfolio will only perform well some of the time. Good examples of this are the banking crisis of 2008 and the technology crash of 2000 – many investors who were over-exposed to these areas suffered heavy losses. Diversification mitigates risk, as different areas perform well at different times. Paradoxically, though, it's also important not to be too diversified.

One of the biggest dilemmas investors face is market timing. Jumping in and out of markets on a regular basis not only requires constant monitoring of daily events but also requires the skill to act on such events. The return from a lump sum investment can depend heavily on the entry point. One way to achieve this is to spread or drip-feed a lump sum into the market as opposed to investing it all in one go. In fact, during volatile times this strategy allows you to benefit from what is known as 'pound cost averaging'. Regular investing provides an alternative method of building positions over time. ■

IMPROVED RETURNS WITHIN YOUR INVESTMENT STRATEGY

Our services cover a wide range of investment products and strategies. Our dedication to flexibility and innovation ensures we are able to secure new and tactical opportunities for improved returns within your investment strategy. To discuss what you need to do next, please contact us for further information.

Information is based on our current understanding of taxation legislation and regulations. Levels and bases of and reliefs from taxation are subject to legislative change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

You've protected your most valuable assets.

But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

BAD NEWS CAN IMPACT ON ANY ONE OF US AT ANY TIME

Safeguarding and protecting your family's standard of living

Bad news can impact on any one of us at any time, in the form of an illness or sudden death. We don't like to think about it but we do have to plan for it. So having the correct protection strategy in place will enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. However, choosing the right options can be difficult without obtaining professional advice to ensure you protect your family from financial hardship.

Obtaining advice is essential to making an informed decision about the most suitable sum assured, premium, terms and payment provisions. We work with our clients to create tailored protection strategies that meet their financial goals and needs and we're committed to ensuring that our clients enjoy the best financial planning service available.

Whether you're wanting to provide a financial safety net for your loved ones, moving house or a first-time buyer looking to arrange your mortgage life insurance – or simply wishing to add some cover to what you've already got – you'll want to make sure you choose the right type of cover. That's why obtaining the right advice and knowing which products to choose is essential.

Life assurance helps your dependants to cope financially in the event of your premature death. When you take out life assurance, you set the amount you want the policy to pay out should you die – this is called the 'sum assured'. Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

As you reach different stages in your life, the need for protection will inevitably change. These are typical events when you should review your life assurance requirements:

- Buying your first home with a partner
- Having other debts and dependants
- Getting married or entering into a registered civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying on someone else to support you
- Personal guarantee for business loans

Your life assurance premiums will vary according to a number of different factors, including the sum assured and the length of your policy (its 'term'), plus individual lifestyle factors such as your age, occupation, gender, state of health and whether or not you smoke.

If you have a spouse, partner or children, you should have sufficient protection to pay off your mortgage and any other liabilities. After that, you may need life assurance to replace at least some of your income. How much money a family needs will vary from household to household so, ultimately, it's up to you to decide how much money you would like to leave your family that would enable them to maintain their current standard of living.

There are two basic types of life assurance, 'term' and 'whole-of-life', but within those categories there are different variations.

The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period. There are several types of term assurance.

The other type of protection available is a whole-of-life assurance policy designed to provide you with cover throughout your entire lifetime. The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die. ■

ADDED PEACE OF MIND

We can help make sure you and your family is financially protected, which means added peace of mind for you and protection for them. Contact us today to discuss your requirements.

KEEPING A WATCHFUL EYE ON YOUR MONEY

Taxing times for the average 50-year-old

The average 50-year-old has paid £190,400 in direct taxes by the time they celebrate their 50th birthday – equivalent to around three-and-a-half times more than they've invested in their pension, new analysis from MetLife [1] shows.

This study of the finances of 50-year-olds shows they have an average of £54,300 saved in pension funds but have paid out more than three-and-a-half times that in tax and National Insurance.

People on median earnings starting work at 21 will have paid out £114,148 in income tax with the other £76,000 going on National Insurance during the course of their working lives, figures show. For men the total direct tax bill by 50 comes in at £205,000, while women pay an average £167,370 in income tax and National Insurance.

The amount paid in tax is another illustration of the financial pressures on the group born between 1961 and 1981. While the tax bill appears high, the good news is that pension saving continues to attract significant tax relief and is a good way to maximise tax efficiency while planning for retirement.

According to the analysis, people working on to 66 from age 50 on median earnings will find their total tax bill rising to £290,560 – another £100,000 in the last 16 years of their working lives when their focus will be on retirement planning.

Men working from 21 to 66 will pay a total of £316,950 in tax and National Insurance during their working lives, while women will pay £247,350, the figures show. ■

CONCERNED ABOUT YOUR RETIREMENT PROVISION?

If you are concerned about your retirement provision, please contact us to review your current situation – it's always better to do something rather than nothing. The problem will not go away and over time will only get worse.

[1] MetLife analysis of HMRC and ASHE data published 07/11/12.

COULD YOU BE SHORT-CHANGED FROM YOUR FUTURE PENSION INCOME?

Reaching retirement is the catalyst for seeking professional financial advice

There is a world of choices and decisions to be made when reaching retirement, and that's before you even look at whether you should take an enhanced annuity.

For many individuals, reaching retirement is the catalyst for seeking professional financial advice. Suddenly you can be faced with a pension pot – be it large with myriad options, or small and needing to be stretched as far as possible.

According to the National Association of Pension Funds (NAPF), nearly two-thirds of us could be eligible for higher pensions when we retire. Thousands of people are missing out because they do not realise that having certain medical or lifestyle conditions could significantly boost their retirement incomes when buying an annuity or annual pension.

The NAPF estimates that about half a million people retiring each year are being short-changed by up to £1bn from their total future pension income.

If you or your partner suffers from medical and/or lifestyle conditions, you may qualify for enhanced terms on your annuity option, which could increase your retirement income. Enhanced annuities take into consideration detailed information about your health and lifestyle to provide you with a more personal annuity.

Typically, when an annuity provider quotes for an enhanced annuity, they will pay close attention to all the factors that will affect your life expectancy. This includes where you live, whether you smoke and drink, your lifestyle and your medical history. They can then build a more accurate picture of your life expectancy, on which they base their calculations. ■

SECURING A BIGGER RETIREMENT INCOME

You need to bear in mind that once you commit to an annuity, you will be stuck with it for life, so it is essential to obtain professional financial advice. Contact us today to discuss how you could secure a bigger retirement income.

TAX-SAVING IDEAS TO BEAT THE END OF TAX YEAR

Now is the time you should be reviewing your financial affairs

With the end of the tax year rapidly approaching on 5 April, now is the time to focus on ways to mitigate any tax liability. To make the most of the opportunities available, if you've not already done so, you should start putting plans in place now. Here we look at some of the areas you may need to consider to minimise a potential tax liability.

If your partner pays a lower rate of tax than you, you could consider transferring assets into their name. This makes particular sense if one of you is a non-taxpayer, as your taxable income will be lower than your tax allowances, which means you won't have to pay any tax on savings interest. Interest on savings accounts is usually paid after 20 per cent has been deducted by the provider. Higher rate tax payers pay 40 per cent interest.

To receive your interest paid tax free, you will need to complete form R85. This is available from banks, building societies or the HM Revenue and Customs (HMRC) website. If you are a non-taxpayer, but have paid tax on your savings, make sure you claim it back. You need form R40 from HMRC.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception is dividend income from jointly owned shares in 'close' companies, which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

CHILDREN

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

You could consider transferring assets from other relatives, for example, grandparents and/or employing teenage children in the family business to use personal allowances and the basic rate tax band.

Children also have their own Capital Gains Tax (CGT) annual exemption of £10,600 (2012/13). If appropriate, it may be more effective for parents to invest for capital growth rather than income.

The government introduced the Child Trust Fund (CTF) for children born on or after 1 September 2002. The idea was to promote tax-efficient savings by family and friends and included government contributions as an incentive. All government contributions have now ceased and children born on or after 3 January 2011 no longer qualify for a CTF account.

Existing CTF accounts continue alongside a new Junior Individual Savings Account (Junior ISA) which has been introduced for those children who are not eligible for a CTF account. This includes children born before 1 September 2002 as well as children born from 3 January 2011. Both CTF and Junior ISA accounts allow parents, other family members or friends to invest up to £3,600 (2012/13) annually in a tax-efficient fund for a child. There are no government contributions and no access to the funds until the child reaches 18.

TAXPAYERS

The 50 per cent additional rate of income tax on taxable incomes above £150,000 reduces to 45 per cent on 6 April this year. This means that those who are able to defer income from 2012/13 to 2013/14 could benefit from a 5 per cent or more reduction in the tax charged on the amount deferred.

NON-TAXPAYERS

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered a tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross (form R85).

Tax credits on dividends are not repayable so non-taxpayers should ensure that they have other sources of income to utilise their personal allowances.

PENSION CONTRIBUTIONS

There are many opportunities for pension planning but the rules can be complicated.

The rules include a single lifetime limit, currently £1.5m in 2012/13 but reducing to £1.25m in 2014/15, on the amount of pension saving that can benefit from tax relief. There is also an annual limit on the maximum level of pension contributions, currently £50,000 for 2012/13 reducing to £40,000 in 2014/15. The annual limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the annual limit are taxable on the individual.

This year and in the next tax year, carry-forward provision allows investors to contribute up to a maximum of £200,000. You can carry forward any unused annual allowance from the previous three years, which will give people some scope to catch up on contributions they have missed. You could potentially invest up to £200,000 (assuming a £50,000 allowance from the current year and an assumed £50,000 allowance from the previous three). If these are personal contributions they cannot exceed your earnings in the current tax year.

Directors of family companies could, as an alternative, consider the advantages of setting up a company pension scheme or arrange for the company to make employer pension contributions. If a spouse is employed by the company, consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

EMPLOYER-PROVIDED CARS AND FUEL

If applicable, you should also check that an employer-provided car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance of 45p per mile (up to 10,000 miles) for business travel in your own vehicle. If an employer-provided car is still preferred, consider the acquisition of a lower CO^2 emission vehicle on replacement to minimise the tax cost.

Where private fuel is provided, the benefit charge is also based on CO^2 emissions. You should review any such arrangements to ensure no unnecessary tax charges arise.

CAPITAL GAINS TAX (CGT)

With 5 April fast approaching, it is a good idea to be thinking about using up your CGT exempt amount to make the best use of tax advantages. For 2012/13 every individual has a CGT exempt amount of £10,600 where no CGT is payable. Any capital gains on disposal of assets or investments are added to income and taxed at 18 per cent over this exempt amount to the basic rate limit of £34,370 for 2012/13 and then at 28 per cent for any gains over this.

Depending on your income from capital gains, timing can become an important issue. If appropriate, you should aim to use up your personal exemption before 5 April but if your income from capital gains is high enough then you could wait until the 2013/14 tax year to possibly avoid paying tax at 28 per cent unnecessarily.

CGT liabilities are calculated with your Self-Assessment Tax Return and tax payable is due by 31 January 2013 for the tax year ending 5 April 2012. Therefore part of your planning may be to leave disposals until after the year end to give you another 12 months to pay the tax liability.

If you have two homes you could consider making an election, so that future gains on your 'main residence' are exempt from CGT.

A capital gain can also be deferred if the gain is reinvested in the shares of a qualifying unquoted trading company through the Enterprise Investment Scheme.

No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly Inheritance Tax, in relation to capital assets.

INVESTMENTS

There is a wide range of investments with varying tax treatments. When choosing investments, always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

INDIVIDUAL SAVINGS ACCOUNTS

Individual Savings Accounts (ISAs) provide an Income Tax and Capital Gains Tax investment wrapper. The maximum investment limits are set for each tax year. Therefore to take advantage of the limits available for 2012/13 the investment(s) must be made by 5 April 2013 (this tax year you can shelter up to £11,280).

An individual aged 18 or over may invest in one Cash ISA and one Stocks & Shares ISA per tax year but limits apply. A Cash ISA allows you to invest up to £5,640 (2012/13) with one provider only, in any one tax year.

A Stocks & Shares ISA allows you the option to invest up to £11,280 in the current tax year with one provider.

If you want to invest in both a Cash ISA and a Stocks & Shares ISA, the overall amount is capped and you cannot exceed the £11,280 limit (2012/13).

16 to 17-year-olds are able to open an adult Cash ISA in 2012/13 and can also have a new Junior ISA account. This means that a combined maximum investment of £9,240 (£5,640 Cash ISA + £3,600 Junior ISA) is possible for 2012/13.

OTHER INVESTMENTS

National Savings & Investment bank (NS&I) products are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

Single premium life assurance bonds and 'roll up' funds can provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

The Enterprise Investment Scheme (EIS) allows income tax relief at 30 per cent on new equity investment (in qualifying unquoted trading companies) of up to £1m in 2012/13. As long as shares held for at least three years, the sale of the shares at a profit will be CGT-free (a reduction of the current rate of 28 per cent to 0 per cent).

Any size of capital gain made on the disposal of any kind of asset can be 'deferred' by re-investment into EIS-compliant companies. The deferred gain is then due on the sale of the EIS shares unless the sale is to a spouse or on the death of the shareholder.

Investments in EIS-compliant shares can attract Inheritance Tax business property relief (BPR) equal to 100 per cent of the investment value on gifting or on death.

A Venture Capital Trust (VCT) invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of shares in the VCT.

Income Tax relief, currently at 30 per cent, is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

Finally, review your borrowings. Full tax relief is given on funds borrowed for business purposes. ■

ISN'T IT TIME YOU TOOK ADVANTAGE OF ANY TAX BREAKS?

It's important to take advantage of timely tax breaks. To investigate the opportunities available to you, please contact us today.

The value of investments can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

DEVELOPING AN INVESTMENT STRATEGY

What do you want to achieve from your investments?

Whatever your needs, we can help. You may wish to entrust the entire wealth management process to us, or make the investment decisions yourself and still leverage our extensive services and expertise.

Developing an investment strategy requires that you clearly define the short, medium and long term rational for your portfolio.

Questions that should be considered are:

Q: What are the investment objectives of your portfolio?
Q: What appropriate investment strategies will achieve these objectives?
Q: What is your attitude to risk tolerance relative to your objectives?
Q: What is your time horizon for achieving your objectives?

A CLEAR ROAD MAP

Defining your investment objectives will provide a clear road map for developing the proper investment strategy, with the correct balance of risk.

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

INVESTMENT CONSIDERATIONS

It is important for you to establish the general purpose for creating the investment portfolio.

Such analysis should be undertaken:

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide – capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (by using a pooled investment, for example)?
- If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).
- What are the tax benefit implications, what tax will you pay and can you reduce it?

INVESTMENT OBJECTIVES

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

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

RISK RETURN TRADE-OFF

Through a balancing process of the potential risk return trade-off, your portfolio objectives can be achieved. All investment strategies used to achieve the objectives must focus on these two important portfolio elements, 'risk and return'.

The best investment strategy is the one that achieves your objectives with the correct balance of the risk return trade-off, viewed over the proper duration or time horizon. The asset class, which has historically provided higher returns over the long term risk adjusted, is equities, followed by bonds. Equities contain the highest degree of risk volatility. However, the longer the duration or time horizon for equities, the lower the potential for volatility.

Investors typically hedge against volatility through an asset allocation across a diverse range of asset classes and strategies. A combination of these different asset classes and strategies should achieve the investment returns for investors relative to their objectives.

DELIVERING HIGHER RETURNS

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

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

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

'LIFESTYLE' YOUR INVESTMENTS

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

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

PROFESSIONAL FINANCIAL ADVICE IS ESSENTIAL

The performance of your investments could make a critical difference to your financial wellbeing in the future, so receiving reliable and professional financial advice is essential. Please contact us to discuss your particular situation.

Information is based on our current understanding of taxation legislation and regulations. Levels and bases of and reliefs from taxation are subject to legislative change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

Isn’t it time you had a financial review?

We’ll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

AVOID FACING FINANCIAL UNCERTAINTY IN OLD AGE

Nearly half of women rely on joint savings to fund retirement

Nearly half (43 per cent) of women are relying on joint savings with their partners to fund their retirement, according to the eighth annual Scottish Widows Women and Pensions Report. However, with one in three marriages in the UK now ending in divorce by the fifteenth anniversary [1], experts are urging women to make extra provisions for retirement, to avoid facing financial uncertainty in old age.

Based on a sample of 5,200 adults, the report found that less than one in five (17 per cent) of women trust their own savings to see them through retirement, compared to nearly a third (30 per cent) of men.

PRECARIOUS PLANS

Despite many women being dependent on their partners for their income in old age, the report finds that these precarious plans are often left unsaid. The vast majority (79 per cent) of married women say that retirement was not discussed with their partner before they walked down the aisle and 78 per cent said they did not know what they would be entitled to from their partner's pension if they divorced.

LOSING OUT

Furthermore, out of the divorced women surveyed, just 15 per cent said pensions were discussed as part of their settlement. This is in spite of it being a legal requirement that pensions are taken into account in divorce settlements, through methods such as offsetting, earmarking and sharing. This is especially significant, as women are more likely to work part-time or have caring responsibilities for family members, meaning that they are at greater risk than men of losing out on important retirement income.

EXPOSED TO HARDSHIP

The impact of divorce on women's retirement is especially concerning considering that almost one in ten (8 per cent) of women over 50 are wholly dependent on their partner's savings to fund them in retirement. This report uncovered that this group of older women are particularly vulnerable in terms of lack of retirement provision, with the number of women over 50 without a pension nearly double that of men of the same age (28 per cent versus 15 per cent). As the divorce rate in the UK continues to rise, this group of women could be exposed to hardship in retirement should they separate from their partners.

UNFORESEEN EVENTS

We know that the pressure on household budgets and the challenge of managing childcare and wider family responsibilities whilst balancing work, can all make it more difficult for women to save for retirement. For many older or divorced women, this can mean relying on a partner or other family members to provide support or additional income in later life. However, unforeseen events can have a stark impact on retirement plans, and it is important for women to make sure they know what they are entitled to and how much they can expect to receive in retirement.

For this group of women, it is important to act now. Making a commitment to save a set amount each month, could mean the difference between a comfortable retirement and one full of financial difficulties. ■

ENJOY YOUR RETIREMENT YEARS

We can work with you to develop strategies to accumulate wealth in order for you to enjoy your retirement years, by evaluating your goals, personal circumstances and projected living costs - please contact us to discuss your requirements.

[1] Office of National Statistic's Divorces in England and Wales 2009/10. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 5,200 adults. Fieldwork was undertaken between 4th - 11th March 2012. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18 years plus).

ACHIEVING YOUR RETIREMENT GOALS

The earlier you start saving for a pension, the better chance you'll have of achieving your retirement goals. To find out how putting off the decision to start a pension could affect your potential retirement income, please contact us to discuss your requirements.

PROTECTION WHEN YOU MAY NEED IT MORE THAN ANYTHING ELSE

The right peace of mind when faced with the difficulty of dealing with a critical illness

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

PREDICTING CERTAIN EVENTS

It's almost impossible to predict certain events that may occur within our lives, so taking out critical illness cover for you and your family, or if you run a business or company, offers protection when you may need it more than anything else. But not all conditions are necessarily covered, which is why you should always obtain professional advice.

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

NOT A REPLACEMENT FOR INCOME

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

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

'TOP UP' YOUR EXISTING COVER

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

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

CONDITIONS NOT COVERED

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

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

A RANGE OF FACTORS

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

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

Activities of daily living include:

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

PURSUE A LESS STRESSFUL LIFESTYLE

The good news is that medical advances mean more people than ever are surviving conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose. Don't leave it to chance – make sure you're fully covered, please contact us to discuss your requirements.

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

TAXATION MATTERS

Different investments have different tax treatment

If you or your partner is a non-taxpayer, make sure that you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HM Revenue & Customs.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

You pay no personal income tax or capital gains tax on any growth in an ISA, or when you take your money out. You can save up to £11,280 per person in the 2012/13 tax year in an ISA.

If you invest in a Stocks and Shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. There is no further tax liability.

The impact of taxation (and any tax reliefs) depends on individual circumstances. Information about tax rules is based upon our current understanding and is liable to change in the future.

NATIONAL SAVINGS AND INVESTMENTS

You can shelter money in a tax-efficient way within this government-backed savings institution.

UNIT TRUSTS AND OPEN ENDED INVESTMENT COMPANIES (OEICS)

With a Unit Trust or OEIC your money is pooled with other investor's money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property.

DIVIDEND INCOME FROM OEICS AND UNIT TRUSTS INVESTED IN SHARES

If your fund is invested in shares then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit. If you are a basic rate or non taxpayer, there is no further income tax liability. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while the additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

CAPITAL GAINS TAX

No capital gains tax is paid on the growth in your money from the investments held within the fund, but when you sell, you may have to pay capital gains tax.

Bear in mind that you have a personal capital gains tax allowance that can help you limit any potential tax liability. After 23 June 2010 the rate of tax that applies on any gain over your allowance is either 18 per cent or 28 per cent depending on your taxable income.

ACCUMULATED INCOME

Accumulated income is interest or dividend payments which are not taken but instead reinvested into your fund. Even though they are reinvested they still count as income and are subject to the same tax rules as for dividend income and interest.

ONSHORE INVESTMENT BONDS

Investment bonds have a different tax treatment from other investments. This can lead to some valuable tax planning opportunities for individuals. There is no personal liability to capital gains tax or basic rate income tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be greater than 100 per cent of the amount paid in).

If you are a higher or additional rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire for example) then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. If you do this, you will not need to pay tax on any gains from your bond.

ONSHORE INVESTMENT BOND CONSIDERATIONS

Certain events during the lifetime of your bond may trigger a potential income tax liability:

- Death
- Some transfers of legal ownership of part or all of the bond
- On the maturity of the bond (except whole of life policies)

ON FULL OR FINAL CASHING IN OF YOUR BOND

If you withdraw more than the cumulative 5 per cent annual allowance, a tax liability is calculated on the amount withdrawn above the 5 per cent.

If you are a higher or additional rate taxpayer or the profit (gain) from your bond takes you into a higher or additional rate tax position as a result of any of the above events then you may have an income tax liability.

As you are presumed to have paid basic rate tax, the amount you would be liable for is the difference between the basic rate and higher or additional rate tax. The events may also affect your eligibility for certain tax credits.

Life assurance bonds held by UK corporate bonds fall under different legislation. Corporate investors cannot withdraw 5 per cent of their investment and defer the tax on this until the bond ends.

OFFSHORE INVESTMENT BONDS

Offshore investment bonds are similar to UK investment bonds above but there is one main difference.

With an onshore bond tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or capital gains tax is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Note that tax may be payable on a chargeable event at a basic, higher or additional rate tax as appropriate.

Remember that the value of your fund for both onshore and offshore bonds can fluctuate and you may not get back your original investment.

Offshore is a common term that is used to describe a range of locations where companies can offer customers growth on their funds that is largely free from tax. This includes "true offshore" locations such as the Channel Islands and Isle of Man, and other locations such as Dublin. Tax treatment can vary from one type of investment to another and from one market to another.

UK SHARES AND TAXATION

If you own shares directly in a company you may be liable to tax.

DIVIDENDS

Any income (dividends) you receive from your shares carries a 10 per cent tax credit. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while the 50 per cent additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

SALES OF SHARES

When you sell shares you may be liable to capital gains tax on any gains you may make. You have a yearly allowance, above which any gains are liable to 18 per cent tax. Special rules apply to working out your gains or losses.

MAKE THE MOST OF YOUR PERSONAL INCOME ALLOWANCES

If you have a non-earning spouse, or civil partner, you can switch income-earning investments to help your tax bill. Everyone up to age 65 has a personal allowance of £8,105 in the 2012/13 tax year, rising to £10,500 between the ages of 65 and 74 and £10,660 at 75 and over. This means you can earn this amount without paying tax.

USE CAPITAL GAINS TAX ALLOWANCES WISELY

Everyone can make up to a certain amount of profit each year from selling an investment or property without paying tax. Think about switching investments to a spouse's or registered civil partner's name to take advantage of both of your allowances. ■

MAKE A BIG DIFFERENCE TO THE VALUE OF YOUR MONEY

A little planning and some meaningful decisions now can make a big difference to the value of your savings and investments later. To discuss how we could help you save and invest in the most tax-efficient way, please contact us for more information.

The value of investments and the income from them can go down and up, and you may not get back as much as you paid in. Tax benefits and liabilities depend on individual circumstances and may change in the future.

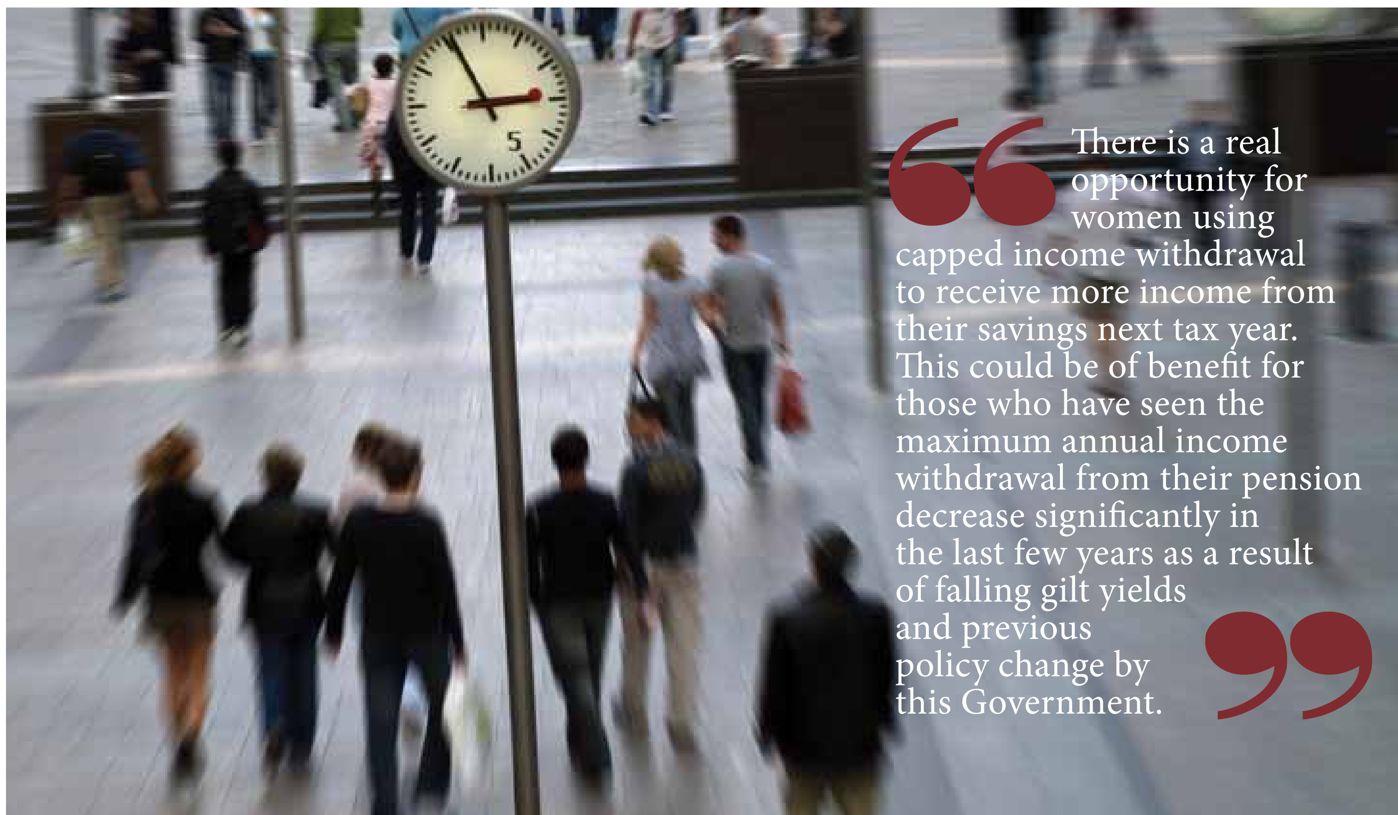
Past performance is not a guide to the future.

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.



COULD YOUR PENSION INCOME RISE BY AS MUCH AS 33 PER CENT?

Women need to be aware of their options to ensure they benefit from this opportunity

Women taking capped income from their pension could benefit from a significant income uplift this tax year. They may need to take action to achieve this and it is important they are aware of the potential opportunity that could exist.

BOOSTING INCOME

There are two new factors which will potentially boost income for women taking capped income from their pension savings, they are:

1. From 21 December 2012, gender neutrality came into effect. For women this means capped income withdrawal calculations are based on male rather than female income factors, which are higher. This means that from this date, when their pension income is next reviewed, women will be able to take more income.

2. Following the Chancellors Autumn Statement 2012 in December last year, the formula used to calculate maximum capped income withdrawal levels will see a 20 per cent uplift. This could lead to a rise in the maximum amount of income available to pension savers who went into income withdrawal, or had an income review, on or after 6 April 2011. Pre 6 April 2011 the 20 per cent uplift was available.

ANNUAL REVIEW FACILITY

A combination of these two factors could result in a rise of nearly 33 per cent to a woman's maximum capped income. The important point to highlight is that women may not benefit from this enhancement unless they take action. The first key issue to check if applicable to you is whether your current pension contract offers an annual review facility. If it doesn't (and the arrangement started on or after 6 April 2006), rather than wait for the next statutory review period which could be two or more years away, you could consider one of the following options (subject to the flexibility of your current arrangement):

- If you have money held in your pension which you have not yet started to take income withdrawals from, some of this money could be released and added to the income withdrawal fund. The income formula used on the new money would apply to the entire amount in the income withdrawal fund - not just the new money moved across.
- If all of your pension savings are already in the income withdrawal fund and you haven't reached your 75th birthday, you could top-up your pension by making a new contribution. This new money can then be moved across to the income withdrawal fund, and as above, the entire income will be recalculated on the enhanced basis.

CAPPED INCOME WITHDRAWAL

There is a real opportunity for women using capped income withdrawal to receive more income from their savings next tax year. This could be of benefit for those who have seen the maximum annual income withdrawal from their pension decrease significantly in the last few years as a result of falling gilt yields and previous policy change by this Government.

It's important that people are aware of the options available to them. One simple check women could do now is to confirm whether their current capped income contract offers an annual review facility. ■

DO YOU KNOW WHAT YOU SHOULD BE DOING IN THE RUN UP TO RETIREMENT?

When you retire, we can help you make the most of your income. To compare the options and make the most of your money, please contact us for more information.

WILL YOU BE ABLE TO ENJOY YOUR RETIREMENT?

More over-55s are increasingly working past retirement age as living costs hit savings

The UK's over-55s are increasingly working past the traditional retirement age as larger numbers fall back on their savings in later life to meet living costs, according to Aviva's latest Real Retirement Report. The report examines the financial pressures faced by the UK's three ages of retirement: 55-64s (pre-retirees), 65-74s (the retiring) and over-75s (the long-term retired).

PROLONGED WORKING BOOSTS INCOME

Average monthly income for the over-55s has increased by just £109 in the last two years (from £1,335 – Q4 2010 to £1,444 – Q4 2012). The retiring have driven this trend, gaining £166 overall, while monthly incomes have risen a mere £9 for pre-retirees and fallen by just £1 for the long-term retired (see table for details).

All	55 – 64	65 – 74	Over 75s
Q4 2010			
£1,335	£1,480	£1,318	£1,181
Q4 2011			
£1,285	£1,271	£1,388	£1,125
Q4 2012			
£1,444	£1,489	£1,484	£1,180
Difference			
+ £109	+£9	+£166	-£1

The income boost for the retiring has been driven by more people working past the Default Retirement Age, which was phased out in 2011. Since the Real Retirement Report launched three years ago, the percentage of this age group who list wages as part of their income has risen from 18 per cent to 23 per cent (Q4 2012).

The report also shows the growing importance of workplace benefits in retirement. With the effects of auto-enrolment yet to kick in for future generations, people aged 65-74 (47 per cent) are still more likely to draw income from an employer pension than those aged 75 and over (37 per cent).

EXPENDITURE

Monthly spending by the UK's over-55s has actually fallen in the last year, despite annual inflation of 2.74 per cent (Q4 2012), with average outgoings of £1,231 in Q4 2012 down from £1,269 in Q3 2012 and £1,300 in Q4 2011.

The typical over-55 has cut back on non-essential items and prioritised debt repayment, travel, and fuel and light. Spending on entertainment, recreation and holidays has fallen by 19 per cent in the last quarter, while clothing and footwear has dropped by 13 per cent and leisure goods by 10 per cent. Meanwhile, spending on debt repayment has increased by 8 per cent and almost matches monthly food bills (£177.58 compared with £189.45).

SAVINGS

The average saving pot for over-55s has fallen by almost £4,000 in the last quarter (£14,544 – Q4 2012 compared with £18,364 – Q3 2012). This remains larger than a year ago (£11,153 – Q4 2011), but while pre-retirees' savings have reached their highest level since the report began, total savings have decreased among the two older age groups, both in the last quarter and in the last two years (see table for details).

All	55 – 64	65 – 74	Over 75s
Q4 2010			
£15,262	£11,903	£21,427	£8,998
Q4 2011			
£11,153	£6,665	£21,070	£8,498
Q3 2012			
£18,364	£12,351	£30,624	£13,332
Q4 2012			
£14,544	£13,873	£18,748	£8,748

DIPPING INTO SAVINGS

The need for the long-term retired to dip into their savings to maintain their standard of living has seen the percentage with less than £2,000 saved grow from 23 per cent (Q3 2012) to 30 per cent (Q4 2012). In addition, the amount retirees save is actually down by 28 per cent from Q1 2012 although they have increased marginally year-on-year (up 7 per cent in Q4 2012 compared to Q4 2011). The typical over-55 puts away just £28.67 or 1.99 per cent of their monthly income: a mere £1.77 more than the same time last year.

CHOICE OR NECESSITY

Whether it's through choice or necessity, the fact that people are working for longer shows how vital it is to work hard to achieve financial stability, so you can enjoy your retirement without the constant worry about making ends meet.

The growth of income among the retiring population is a clear sign they are taking the opportunity to prepare for the future, and prioritise their outgoings to clear existing debts. And while the long-term retired may find their savings dwindle in retirement, it's important to remember that, with the right advice, there are often alternative ways to cope with rising living expenses and unforeseen costs. ■

ACHIEVE YOUR DESIRED RETIREMENT INCOME

If you have concerns about your retirement and want to find out how much you should be saving to help achieve your desired retirement income, please contact us for further information – we look forward to hearing from you.

The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this more than 14,600 UK consumers aged over 55 were interviewed between February 2010 and November 2012. This data was used to form the basis of the Aviva Real Retirement Report. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics become apparent. Population projections from ONS.

DO YOU NEED GROWTH, INCOME OR BOTH?

Preparing for whatever economic ups and downs might be ahead

The volatility in global markets over the past four years has tested the nerves of even the most experienced investors, making it a difficult time for individuals who rely on income from investments for some or all of their needs. The search for inflation-beating income is forcing many investors to move money out of cash accounts and into investment funds, with the aim of achieving a rising level of income.

How should you decide between growth and income investments? Much will depend on your investment time frame and what you need the investment to provide for you. When considering the answer, it's important not to ignore the concept of 'total return'. Total return looks to combine income with capital growth to achieve the best overall return. One way of achieving this is with equity income funds, where investors saving for retirement could reinvest the income until the day they retire and then elect to have it paid to them instead, producing an income without the costs of completely overhauling their portfolio.

Index-linked investments, such as certain gilts and National Savings certificates, can protect against inflation eroding capital and income, but in today's low-inflation world investors need to compare the total return to that available from an ordinary gilt or savings account.

BALANCE BETWEEN THE DIFFERENT ASSET TYPES

Wealthier investors, who can cope with a little fluctuation in their income and capital, could look to include corporate bonds, property and dividend-paying shares. Bonds and property traditionally pay higher yields than equity income shares, but equities have provided the greatest opportunity for capital growth and growth of income. A balance between the different asset types should provide the best chance for a reasonable and growing income.

Income-paying equity, bond and property funds can be a good investment for those investing for capital growth too, as it's simple to arrange for income to be reinvested.

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

WHAT IS YOUR FINANCIAL PERSONALITY?

There are many facets to your financial personality and many ways to generate both growth and income from your investments. To discuss the options available to you or to review your current provision, please contact us.

Levels and bases of and reliefs from taxation are subject to legislative change and their value depends on the individual circumstances of the investor. The value of your investments and income can go down as well as up and you may get back less than you invested.

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