Harvey Curtis
FINANCIAL PLANNERS

review

WINTER 2014

Conquering Ben & the Big C

So after the first challenge of battling breast cancer, I decided to give myself another in September 2014 – climbing the highest peak in the UK, Ben Nevis. I wanted to give something back to the charity, Breast Cancer Care, that has supported me and so many others through the horrid business that is cancer.

I knew that it was going to be difficult, I'm not back to full fitness yet and though I had done some training, it's hard to train to climb a mountain that stands at a massive 4,409ft. However, it was a lot harder than I imagined. The terrain was extremely rocky in places with giant boulders to navigate. As we got closer to the top, the weather started to become less pleasant with a howling wind and mist. But after a bit of a teary wobble and a couple of stumbles, I made it to the summit! Not much of a view unfortunately, but an overwhelming sense of achievement nonetheless. We didn't stay at the top long as the wind made the temperature an icy -8 degrees. The descent was pretty scary too as the rocks had become slippery and as we started to get closer to the bottom, it was getting darker and darker! We all made it safely back though with a well-earned celebratory dinner and drinks at the hotel.

Even though I was one of the last people to make it, I feel extremely pleased with my personal achievement and what has made the experience even more amazing is all the support I have received from everyone.

I want to say a huge thank you to everybody for all their good wishes and donations to Breast Cancer Care. So far I have managed to raise £1,045 which is brilliant!! May I wish you all a very happy and healthy 2015!

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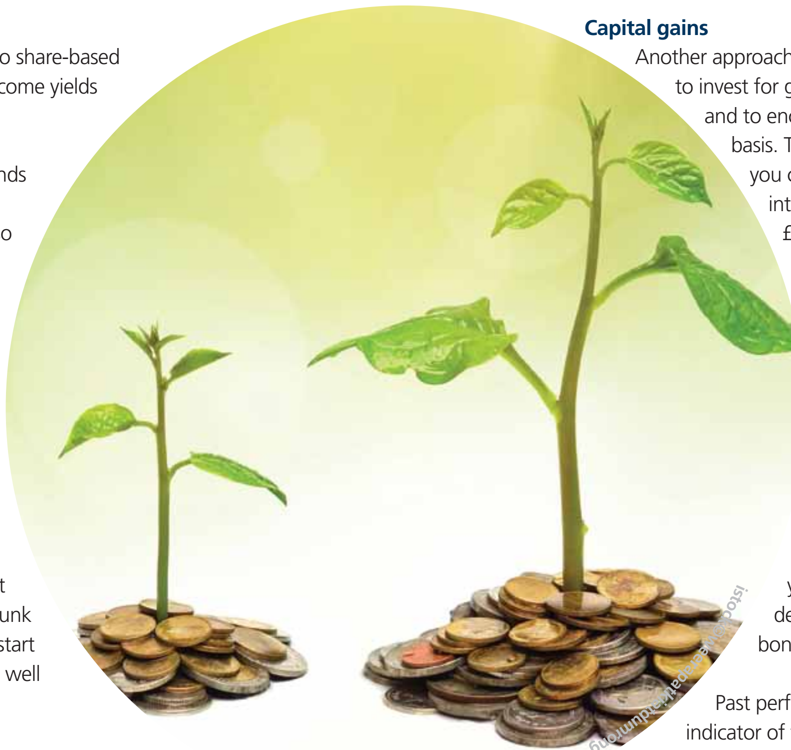
Making the most of your investments

Interest rates are unlikely to increase in the near future, according to the chief economist at the Bank of England. This is not good news for people who depend on bank and building society deposit accounts to generate much of their income.



Dividend income

Many investors have been attracted to share-based investments because of the higher income yields they can provide.

In the long term, UK equity-based funds have generally paid out a growing income and their capital value has also risen, but this is not guaranteed.

Fixed interest investments

Bonds or fixed interest investments are another type of fund that you may well be considering if you are seeking income. Like deposit accounts they pay interest but your capital is at risk, although they are normally less volatile than equity-based investments. Bond funds have generally performed well over the last 20 years or so as interest rates have sunk lower and lower. But if interest rates start to rise again at some point, they may well lose value.

ISAs

One of the problems with investment income is that it is subject to income tax. ISAs are outstanding vehicles for producing tax-free income – using bonds or equities or both.

Capital gains

Another approach to topping up your income is to invest for growth, at least to some extent, and to encash capital gains on a regular basis. The amount of capital gains you can realise tax-free after taking into account any realised losses is £11,000 in the current tax year.

Life assurance bonds

The special tax treatment of life assurance bonds can be valuable to investors who already make full use of their capital gains tax exempt amount. Five per cent of the original investment in such a bond can be taken as 'income' each year, with the tax normally deferred until the life assurance bond is surrendered.

Past performance is not a reliable indicator of future performance. The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. The Financial Conduct Authority does not regulate cash ISAs

Pension estate planning gets a boost

More generous tax treatment of death benefits that has been recently announced has increased the attractiveness of pensions in estate planning.

George Osborne is developing a habit of pulling pensions rabbits out of his hat. In the 2014 Budget he proposed astonishing new flexibilities for pension plans at retirement. Then at his party conference he announced surprising plans to eliminate taxes on many inherited pension funds. This has made pension savings even more valuable for estate planning and avoiding inheritance tax.

Death before age 75 Currently, when a pension scheme member dies before age 75 and the remaining fund is paid as a lump sum, there is generally no tax due if you have not started drawing on the pension. To achieve this, the scheme administrator must select the beneficiaries or the money must be placed in a trust established for the purpose.

There is generally a 55% charge if the member has received the tax-free lump sum and the pension is in income drawdown. Alternatively, a pension income may be provided for a dependant, taxable at their marginal rate.

From 6 April 2015 the Government plans to remove all tax on death before age 75 if the scheme pays the death benefit to someone nominated by the member. This applies to both lump sums and withdrawals from income drawdown. However, if the payments come from an annuity they will be taxable as the recipient's income.

The new rules apply for pension scheme members who die before 6 April 2015, as long as no payment is made before that date.

Death after age 75 Currently, on death after age 75 lump sums paid from pre-retirement pension or income drawdown are taxed at 55%. From 6 April 2015 that will reduce to 45%, and it may change to the recipient's marginal rate a year later. Income payments will be at the recipient's marginal rate, as they are at present.

Action required The new rules will increase your control over your pension fund if you die, and they may therefore affect how you fund your income in early retirement. You must also tell your pension scheme who you nominate to inherit your pension fund. We can advise on what is best for you, taking into account further clarifications as they emerge.

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Auto-enrolment: employers need to be prepared

So far, automatic enrolment has gone very well according to The Pensions Regulator (TPR), but there are warnings that many smaller employers are still unprepared to meet their legal duties.

Under the automatic enrolment rules, all employers will have to enrol their employees into qualifying pension schemes. Employees can opt out if they wish, but it is a criminal offence to induce them to do so.

Four and a half million people have been automatically enrolled, which is around half the expected final total. The National Employment Savings Trust, recently revealed that around one in ten employees is choosing to opt out. Some pension providers and payroll systems have experienced teething problems, but generally administration appears to be running smoothly.

But the regulator has issued a strong warning to smaller employers: "the numbers of times we will need to use our compliance powers will rise." There are two main reasons for this warning:

- The vast majority of employers still have to reach their 'staging dates', and the number who have to implement automatic enrolment each month has been described as a tsunami, with peaks and troughs but with each wave much bigger than the last. There is now a pause before numbers start to build up again in late 2015, becoming a flood in the second half of 2016 and 2017 peaking at 70,000 a month in the summer of 2017.

- Most large employers already had some pension provision which could be adapted to meet the new requirements, but that is not generally true of small companies. A recent TPR survey found that 20% of small employers (under 50 staff) and almost half of micro employers (under 10 staff) do not even know their staging dates.

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TPR recommends starting planning 12 months before your staging date, when it will write to you, but there will be benefits in getting ahead of the game and avoiding the last-minute rush. As TPR said, "Act now, be prepared or risk a financial penalty."

If you need help in planning for and implementing automatic enrolment, please get in touch to discuss what you have to do. Auto-enrolment is regulated by the Pensions Regulator.

The many guises of investment risks

Most people are aware that potentially higher gains go hand in hand with potentially higher risk. However, there are many different types of risk.

Inflation risk

The buying power of your capital will decrease over time as inflation erodes its value. The Bank of England target for UK inflation is 2% a year, and the actual rate of price increases sometimes more and occasionally less. An annual income of £1,000 after 10 years of inflation at 2% will be worth about £820; and after 20 years, it will be worth just £673.

Risk to capital

Some investments like equities, property and to some extent bonds, provide the opportunity for growth in their value, but also the risk that they may fall in value. One of the key reasons for diversification, placing your investment eggs in more than one basket, is to reduce these risks.

Income risk

Your income may be of more immediate relevance to your financial wellbeing than the capital value of your portfolio. If you rent a flat to a tenant, you may be less concerned about fluctuations to the value of the property than the regularity and security of the rental payments. It is much the same with equity and property-based funds.

Shortfall risk

Sometimes investors find that their pensions or other investments do not meet their expectations. This is called shortfall risk. A shortfall could arise for several reasons. The investor might have unrealistic expectations of how their investments will perform. The investor may be starting with too small a sum or simply saving too little. A common cause of shortfall risk is investing in assets that stand virtually no chance of delivering high enough returns.

We are happy to help you decide how much risk you are prepared and able to take and what you want to avoid. All investments involve some kind of risk, although that might not seem to be the case in retrospect.

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Lasting Powers of Attorney – why you need one

An accident or illness can strike anyone, at any time, often without warning. Making a Lasting Power of Attorney (LPA) while you are still fit and healthy can ease the burden on your family by giving them the authority to act on your behalf if you are unable to do so.

A property and financial affairs LPA allows someone else to make decisions about money matters, while a health and welfare LPA nominates someone to make decisions about your healthcare and also expresses your wishes about life-sustaining treatment.

If you do not have an LPA in place and later become mentally incapacitated, an application has to be made to the Court of Protection for someone to become your Deputy before they can take control of your affairs. This is a complicated, costly and stressful process, plus there are ongoing costs and duties following the granting of a Deputyship Order. In addition to the annual supervision fee and Deputyship Report required by the Court of Protection, the Deputy may have to take out a security bond to cover their actions.

Making an LPA now avoids complications in the future if the worst should happen, and gives you peace of mind knowing that you have done everything you can to ease the burden on others. You can then get on with your life in the hope that your attorney will never have to use it. We are here to advise you.

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This year's Finance Act gave HM Revenue & Customs (HMRC) the power to require an upfront, or accelerated, payment of tax where a taxpayer has made use of a tax avoidance scheme which is under dispute with HMRC. A list of nearly 1,200 affected schemes has already been published, and HMRC started issuing accelerated payment notices in August. Payment is required within 90 days, and late payment will initially attract a 5% penalty. The notices cannot be appealed. The substantial tax payments now faced by those already notified should act as stark warning that aggressive tax avoidance can end up being costly.

A necessary protection review

Now is the time to review your protection requirements in the light of inflation and changes in your personal circumstances over the year.

Most life insurance cover is not inflation linked. More important, however, is that the risk of a serious illness or death increases with age. There is a 1 in 50 chance of any 40 year old dying within the next ten years, but by the time we reach 50 the risk increases to 1 in 25. Compare these with the odds of 1 in 26,000 for winning even £25 with Premium Bonds.

Is your current life assurance cover enough to repay the mortgage and any other debts in the event of your death? Will it also provide your wife or husband or civil partner with sufficient additional capital to replace your lost income for the next few years – or longer if you have dependent children? Are you making plans for the future, perhaps for your children and would these plans be likely to fail if you died prematurely or were seriously ill and not able to work? It is worth treating this review with the seriousness your family deserves.

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