What the Papers Say

This is the latest in a regular series of summaries where we look to review some of the main articles written in the financial sections of the Sunday papers.

These articles often cover issues that are important to our personal financial well-being and we hope that the summaries will provide you with information and ideas that will be of interest to you.

If you would like to discuss any of the issues raised within these summaries or any other financial planning issue, please do contact our wealth management division on 01204 414243.

Articles reviewed

"The Death of Pensions: Has it Begun?"

The Telegraph

In the run up to the election, The Telegraph looks at proposed new legislation on pension allowances. After a series of radical changes to Pension legislation, the coalition Government has made retirement planning increasingly flexible and more attractive. It would now appear that Pensions remain in sharp political focus, for all parties, with a looming threat to undermine the case for putting money into a pension in the first place.

The rhetoric is all about limiting pension benefits for the super-rich, however, the proposed policies may have an impact on ordinary earners too.

Lifetime Allowance

The Lifetime Allowance limits the total sum anyone can accumulate within a pension during their lifetime. Labour introduced the concept in the 2006-07 tax year capping Pension savings at £1.5m. This allowance fell further to its current limit of £1.25m, and last month the government proposed that from April 2016 there will be a further fall to £1m. Savers whose pension pots rise above that £1m cap will face a penal 55 per cent tax charge when the money is withdrawn.

Few realise the enormous cost of providing a retirement income, which is why few realise how low this cap has now fallen.

As an example, at age 65 a £1m pension pot will buy a lifetime income starting at just £27,200, where the income is set to rise by 3 per cent per year and where your spouse gets half on death. For many earners that level of pay-out would mean a drastic cut in income and lifestyle.

There is an argument to be made in favour of limiting the total tax relief on pension contributions made by any one person over their working life. After all, such a relief comes at a cost to the wider taxpayer. But the current Lifetime Allowance does not do this. Instead it limits the extent to which your pension pot can grow before it is hit by a punitive rate of tax. Thus it attacks those who invest early – and those who invest well.

As a result it is a tax which falls most heavily on younger generations. Savers in their 30s and 40s – the generations that most need to prepare for financial independence in retirement – are the very ones most likely to be discouraged.

Annual Allowance

The second major attack on the pensions regime outlined by the Conservatives this week would see the annual sum payable into a pension limited for high earners.

At the moment up to £40,000 can be put into a pension each year attracting tax relief. The Conservatives would cut that for those earning between £150,000 and £210,000 to a £10,000 annual limit at the top end of the scale. Labour wants to do something similar.

Again, only the very wealthy would seem to be affected, but this isn't quite the case. Many business owners and others with flexible incomes pay little into pensions early in their careers. They then seek to maximise income and pension contributions in their 50s and 60s when the costs of children and mortgages are behind them.

It would appear that the rapidly changing Retirement planning landscape is showing no signs of slowing down, and therefore regular reviews of your current arrangements are necessary now more than ever.

"Five Unbreakable Rules for ISA Investors"

The Times

With the new ISA season now in force, The Times looks at portfolio management on Stocks and Shares NISAs and gives us five "golden rules" to consider when investing:

1. Portfolio first, funds second

Many investors choose funds because they are fashionable, without any thought to what they already own. This is a mistake as you should invest in funds that fit into your existing portfolio. A better method is to look at the portfolio as a whole and the underlying assets in order to ascertain where there are any gaps that you would like to fill.

2. The Mix Matters

Numerous academic studies have demonstrated that the mix of different assets in your portfolio, or asset allocation, accounts for approximately 90 per cent of the variability of investment returns. The basic assets to consider are shares, bonds, property and cash. However, you should also consider how much you would like to invest in assets such as commodities, gold, infrastructure, hedge funds and private equity, which are often grouped together under the banner of alternative investments. It is extremely important to know what your attitude to investment risk is before committing any funds. This will help you to consider how much you would like to invest into higher risk assets such as equities and commodities, and those at the low risk end of the spectrum such as cash.

3. Charges Matter

Investment performance is not the only factor to determine returns, charges can also make a big difference over time. Costs are one of the most important drag factors in investing and, by extension, a vital determinant of returns. It is important to consider both the underlying charges of the individual fund and the charges of your investment platform.

4. Don't Take it up to the Wire

Rushing decisions at the last minute is never a good idea. Instead of putting all of your money into the ISA in one go at the very end of the tax year, consider setting up a regular savings facility that will drip money into markets monthly. This also helps you avoid the investor's enemy – inertia. Most of us have a natural tendency towards inertia that makes us reluctant to make decisions. Saving monthly takes the pressure off.

5. De-Stress your Choices

Respected studies show that many of us would be far better investors if we could let short term news and events wash over us. Simply buying and forgetting about your investments and ignoring what is happening in the markets – a strategy called buy and hold – can yield the best results. Once you have set up a portfolio, the only thing you have to do is nothing, aside from some occasional rebalancing when some investments rise and others fall. This is easier said than done as we are naturally inclined to follow the crowd and feel more comfortable plunging into and out of markets on a regular basis with everybody else. However, the buy and hold approach has the backing of the world's best known investor Warren Buffet who says: "Ignore the chatter, keep your costs minimal, and invest in stocks as you would a farm."

As with all investments it is important to note that the value of investments and any income taken from them can fall as well as rise. You may not get back the full amount of your original investment.

Any questions?

If you have any questions on any of the articles covered in this publication or would like our help with any financial planning issue, please contact:

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