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 Budget – What to expect – or hope for – on Wednesday – The Sunday Times

The Budget will have "no gimmicks" but pensioners to be wooed by annuities cash-in move – The Mail on Sunday

Money Made Easy – A quick guide to savings – The Sunday Times

Fed up with low interest rates? How to super-size your savings pot – The Mail on Sunday

21 days to nail your nest-egg (tax-free) – The Mail on Sunday

"The Budget will have "no gimmicks" but pensioners to be wooed by annuities cash-in move"

Mail on Sunday

The pre-election budget is due this week. In recent years there has been a 10% cut in the top rate of income tax for higher earners, and millions of low-paid workers escaped income tax entirely thanks to increased personal allowances, but those in the middle seemed to have taken the hit.

Last year David Cameron pledged to take 1m people out of the 40% income tax bracket by raising the threshold to £50,000 by 2020. He also indicated that the personal allowance would rise to £12,500 by 2020. In 2007 the Tories suggested increasing the inheritance tax allowance to £1m but this is yet to come to fruition and it has remained at £325,000 since 2009, could there be any changes in the pipeline?

However, one of the biggest changes will be to pension legislation with the flexibilities due to come into force on 6th April potentially seeing more pensioners releasing their pension fund and not purchasing an annuity. According to the Office for National Statistics, the average 55 year old man is currently expected to live until the age of 86 and a 55 year old woman to 89. As a result pension funds and savings need to potentially last 20 years and as such advice in the run up to retirement and also at the point of deciding how to draw your fund is important. The short-term cash payment may well-outweigh the guarantee of a long term fixed income, but investors may not always be well equipped to determine which offers better value.

With the pension reforms due to take effect from 6th April 2015 a further move by the Chancellor is the potential for pensioners with existing annuities the right to cash them in from April 2016. The extension to the proposed changes will potentially see up to 5 million pensioners who have already annuitized the option to cash in their pot.

Annuities have been the focus of growing controversy in recent years amid plunging rates and people not shopping around for the best deal. Removing the restrictions on buying and selling existing annuities will allow pensioners to sell the income they receive from their policy without unwinding the original contract. It is expected, that George Osborne will remove the tax charges of up to 70% that currently apply to those wishing to sell their annuity income, so that they are only taxed at their marginal rate. It will be interesting to see the details of this proposal in the Budget and we will look at this in closer detail in the coming weeks.

Money Made Easy – A quick guide to savings

The Sunday Times

Fed up with low interest rates? How to super-size your savings pot

The Mail on Sunday

According to the National Savings & Investments (NS&I) more savers put aside money last year than in any other time in the past decade. Savings hit their lowest point in 2006 when about £71 was set aside each month (equivalent to 5.82% of average take home pay). This increased to £114 per month (8.52%) the highest level since NS&I began its savings survey in 2004.

The Bank has kept interest rates at a record low of 0.50% since March 2009. The average fixed rate savings account now pays 1.25%, a far cry from the 6.15% paid in October 2007. The average rate on instant access savings is 0.55% according to the Bank.

In order to get better rates, those able to lock their money away for years can obtain 3.11% with a seven year account from Secure Trust Bank. Those aged over 65 can access pension bonds issued by NS&I.

The three ways cited by the Mail on Sunday for boosting savings interest rates were:

- <u>Switch to a current account</u> – as mentioned above, many of these are paying very attractive rates of interest in comparison to savings accounts.

Some of the best rates are available on current accounts rather than savings accounts. Lloyds pays 4% on balances up to £5,000 on its Club Lloyds Account. The account costs £5 per month, but this is waived if at least £1,500 a month is paid in. Nationwide FlexDirect account pays 5% on up to £2,500 for a year, whilst TBS's Classic Plus account promised 5% on up to £2,000 indefinitely.

- <u>Peer to Peer Lender</u> – this is a relatively young industry but it is growing fast. Later this year, lenders will be able to shelter their "loans" and the interest they receive in ISAs.

One of the biggest players in this area Zopa, through its website is offering individuals 5% if they are lending their capital for up to five years. On two to four year loans, the rates are lower at around 4%. It is very important to note that this can be a high risk strategy as capital is not covered by the Financial Services Compensation Scheme and if a borrower defaults on their loan repayments, this will impair returns. It is also possible to suffer a complete loss.

- <u>Structured deposits</u> – these are ideal for those who are able to tie their monies up for usually terms of three to six years. These are a half-way house between cash savings and investments. The returns are often linked to one or more indices or stocks, if the index is at or higher than the starting level a fixed return is paid. If the index is lower, then you receive your original capital back.

Structured deposits should not be confused with structured investments where investors can lose their original capital. Structured deposits are covered by the Financial Services Compensation Scheme and so capital is protected up to £85,000. Some of the best products on offer are through Investec Bank which is offering a fixed return of 31% over a 6 year term linked to the FTSE 100. If the index is higher at the end of 6 years, the plan will return your original capital plus 31%. If the index finishes lower, you receive your original capital back. Interest is only payable at the end of the term and no payments are made along the way. Another plan on offer could potentially return 4% per annum (not compounded) over 6 years with the ability to mature early after 3 years if the FTSE 100 is higher on the plan anniversary.

The potential drawback of structured deposits, is that the index will be lower and you will only receive a return of your capital. You also need to be prepared to tie your capital up for the whole term as early encashment during the term, if permitted, could result in a capital loss. Your original capital is only guaranteed at the end of the term.

21 days to nail your nest-egg (tax-free)

Mail on Sunday

There are just 21 days left to make the most of this years' ISA allowance. The Mail on Sunday looked at the key steps for taking advantage of the tax break. This years' allowance is £15,000 and so a couple can save £30,000 in total and shield any capital growth and income out of the taxman's reach.

The first big decision is whether to invest in cash or equities or a mixture of both. We have provided a summary of the different asset classes below:

Cash

These remain the most popular, currently the top easy access account is paying 1.5%.

UK

UK Equity income funds buy British shares that pay part of their profits as dividends

US

This can be a notoriously difficult market for fund managers to find bargain shares for investors. Since companies are well researched, the gems have usually been discovered years ago.

Europe

Investors betting on a weak euro, lower oil price and easier credit kick starting the Eurozone might want to invest in European funds. Equity income can be as attractive in Europe as it is in the UK.

Emerging Markets

The developing world can be a challenge, emerging markets can produce attractive returns for investors.

Bonds

These are essentially IOUs issued by companies and governments where a fixed rate of interest is paid however they can be vulnerable to interest rate rises. Strategic Bond funds can be a more flexible option as the fund manager can invest in a whole spectrum of fixed interest securities and can shift the portfolio when needed.

Multi-Asset

For those who cannot decide the best balance between assets this approach can be used. The manager essentially decides which assets to hold and spreads the monies across a diverse range. These funds can be more expensive, however they can also enable investors to access a whole host of different assets and diversify to spread risk.

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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