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NOVEMBER/DECEMBER 2012

EU LAWMAKERS CHANGE ANNUITIES FOR GOOD

Men and women will have to be treated the same when it comes to annuity rates

PEOPLE DON'T PLAN TO FAIL, BUT THEY DO FAIL TO PLAN

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Auto-enrolment signals a new era in workplace communications

MIND THE WEALTH GAP

50-year-olds need another £43bn to become financially secure

BOOSTING YOUR CHILD'S INHERITANCE BY THOUSANDS

You need to take action while you're still alive

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MIND THE WEALTH GAP

50-year-olds need another £43bn to become financially secure

> Around 21 per cent of 50-year-olds own their homes outright without a mortgage.

The average 50-year-old believes they need another £50,000 in savings and investments, including pension and property equity, in order to feel financially secure, new research [1] from MetLife shows.

AVERAGE NET WORTH OF 50-YEAR-OLDS

MetLife's study of the finances of 50-year-olds shows their average net worth is around £179,000 [2] – equivalent to around £155.3bn in property equity, pension funds, savings and investments.

But they believe they need around £229,000 to feel financially secure – a wealth gap of £43.4bn or £50,000 per person. The research also shows that nearly three quarters (72 per cent) of their total net worth is made up of property equity, with the average 50-year-old holding £130,600 in housing wealth.

HIGHLIGHTING THE FINANCIAL PRESSURES

The research highlights the financial pressures faced by the Uncertain Generation – those born between 1961 and 1981 – the U-Gen.

The net worth, including property and pensions, controlled by 50-year-olds highlights what they have achieved but also how much more they feel they need to do. There is clearly a pension and wealth gap in the UK and the uncertainty is increased by ongoing financial and economic volatility, but it is important that people focus on the positives of retirement planning and maximise the assets they have.

STILL PAYING OFF HOME LOANS

The research shows that women on average have total net worth of £167,500 and men £192,000. The averages, however, do not tell the whole story as 36 per cent of 50-year-olds have total net worth of less than £25,000.

Around 21 per cent of 50-year-olds own their homes outright without a mortgage while another 44 per cent are still paying off home loans and 32 per cent rent their homes. ■

If you are concerned about a potential retirement income shortfall, don't delay any further. It is essential to seek professional financial advice now to help you plan for and seek to achieve as much certainty as possible about your financial future. Please contact us and we'll assess the best options available to you.

[1] Research conducted by Harris Interactive amongst a nationally representative sample of UK adults aged 50 in October 2011.

[2] All figures rounded to the nearest £100. Some simplifications exist in the calculation, so all figures should be treated as indicative.

EDITORIAL

There's a saying that goes, 'People don't plan to fail, but they do fail to plan.' The run-up to Christmas is the perfect time to review your financial goals for the start of the New Year. On page 11 we consider why setting financial goals is all about starting with the end in mind – thinking about the outcomes you are hoping for. If you are clear about what you are trying to achieve, it will help you to make good investment decisions.

From 21 December 2012 (G-Day), the new European gender law means that men and women will have to be treated the same when it comes to annuity rates. On page 08 we have provided answers to some of the most common questions we've been asked on this subject. If an annuity contract isn't in place by 21 December it will have to be done on terms that are gender-neutral.

October saw the start of the UK's new pension auto-enrolment system, which is expected to take six years to be fully rolled out. Under the new system, initially any workers over 22 years old and under the state pension age, not already in a scheme and who earn more than £8,105 a year from a large employer will automatically be enrolled. Turn to page 10 to read the full article.

A full list of all the articles featured in this edition appears on page 03.

IN THIS ISSUE

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

WANT TO MAKE MORE OF YOUR MONEY IN 2013?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
- ☐ Protection against the loss of regular income
- ☐ Providing a capital sum if I'm diagnosed with serious illness
- ☐ Provision for long-term health care
- ☐ School fees/further education funding
- ☐ Protecting my estate from inheritance tax
- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

Name ______________________

Address ______________________

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______________________ Postcode ______________________

Tel. (home) ______________________

Tel. (work) ______________________

Mobile ______________________

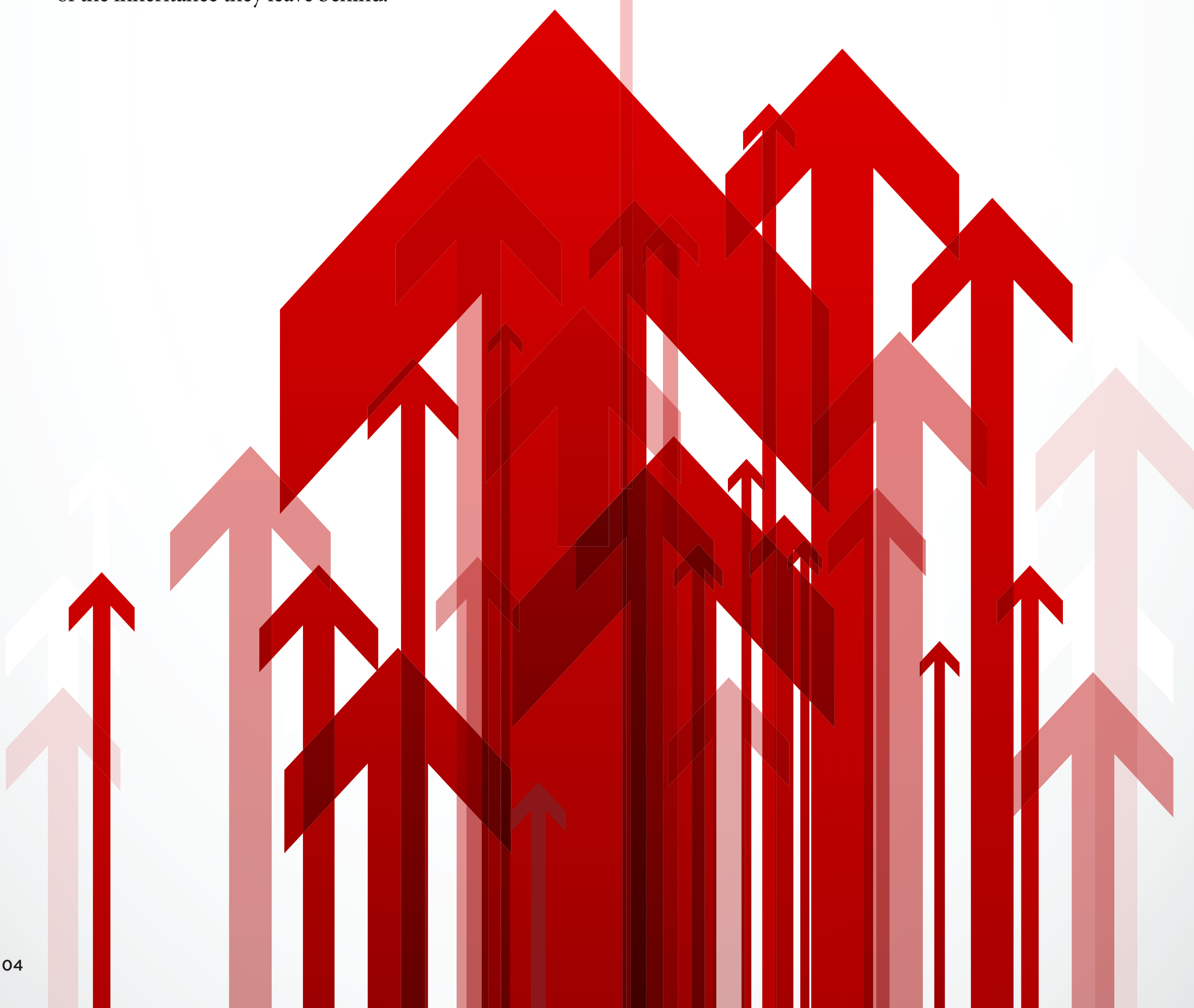
Email ______________________

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

BOOSTING YOUR CHILD'S INHERITANCE BY THOUSANDS

You need to take action while you're still alive

Parents could boost the value of their children's inheritance by thousands of pounds if they start to take action while they are still alive. Something as simple as using surplus pension income to pay into a pension for their children can make a significant difference to the value of the inheritance they leave behind.



PROTECTING A CHILD'S INHERITANCE

Funds held in capped drawdown can be very inefficient from a death benefit perspective. If the capital is to be paid to the children as a lump sum when they die, it will currently be subject to a 55 per cent tax charge. This means the children will receive only 45 per cent of the value of that fund when the parent dies. If a key aim of the parents is to protect their children's inheritance, and they are not utilising their maximum available income, if appropriate it may make sense for them to use this surplus income for some proactive estate planning.

PASSING ON WEALTH TAX-EFFICIENTLY

There are many ways in which parents are able to pass on surplus income to help their children, such as paying off their debts or reducing their mortgage. However, a tax-efficient way of passing on wealth is by making a pension contribution for them. Any income tax suffered by the parent on the income they take is usually negated by the fact that contributions made on behalf of their child can be grossed up at the child's highest marginal rate of tax.

> "Putting money into a pension means that the parent is securing the long-term financial future of their child, especially where a child's earnings may limit the amount they can currently save personally for their future."

SECURING A CHILD'S LONG-TERM FINANCIAL FUTURE

Putting money into a pension means that the parent is securing the long-term financial future of their child, especially where a child's earnings may limit the amount they can currently save personally for their future. As the money is not immediately available, this removes the risk of children 'frittering away' away their inheritance. Instead they will have access to the money from the age of 55, when they could use it to pay off their mortgage and help fund their lifestyle in retirement.

UTILISING SURPLUS INCOME FROM A PARENT'S PENSION

The following demonstrates how effective it can be from a tax and estate planning perspective to utilise surplus income from a parent's pension to fund a child's pension. In this example, the parent currently has a drawdown fund of £300,000.

If the parent takes no action, and they die ten years from now, their drawdown fund could have grown to £495,000[1]. This would leave an inheritance of £222,750 for the child after 55 per cent tax has been paid.

If the parent instead starts to take £10,000 a year from their drawdown fund to pay into their child's pension, although the parent will suffer 20 per cent income tax, the child will receive 20 per cent tax relief (assuming both are basic rate tax payers)[2].

So if the parent dies ten years from now, their drawdown fund could now be worth £361,000. This would leave a lump sum of £162,450 for the child after 55 per cent tax has been paid. In addition, the contributions paid to the child's personal pension could be worth £135,700 after ten years, bringing the total value of the child's inheritance at that point in time to (£162,450 + £135,700 =) £298,150.

This simple planning could therefore increase the value of the child's inheritance by (£298,150 - £222,750 =) £75,400 after just ten years.

Depending on the age of the child when the parent dies, they may not be able to access their pension immediately. If the pension stays locked away for longer, then it has more time to grow. For example, leaving the pension fund untouched for a further ten years could see it grow to £231,406.

STARTING PLANNING SOONER RATHER THAN LATER

Parents fortunate enough to have accumulated substantial savings may like to consider the best way to pass some of those savings on to their children. Parents are likely to be more successful with estate planning if they start sooner rather than later, and pass on some of their intended inheritance while they are still alive, especially if they know they have savings that far exceed their foreseeable needs.

AVOIDING ANY FUTURE RETIREMENT INCOME PROBLEMS

Utilising surplus pension income to fund a child's pension can help boost the value of the inheritance parents pass on to their children. A pension still remains one of the most tax-efficient forms of saving and it will ensure the child is better positioned to avoid any future retirement income problems. Those in retirement know better than anyone how important it is to have adequate savings, so what better way for parents to provide for their children than to ensure their long-term security through opening a pension for them?

Contact us to discuss how we could help you mitigate inheritance tax on your personal wealth, family business and investment portfolios. We have developed a proactive approach and can ensure your own financial needs are met and that you avoid giving away too much too soon. We look forward to hearing from you.

All figures relate to the 2012/13 tax year. Information is based on our current understanding of taxation legislation and regulations. A pension 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. Pension drawdown is a complex product and is not suitable for everyone. The Financial Services Authority does not regulate estate planning, wills or trusts.

[1] Figures assume a growth rate of 6.5 per cent p.a.
[2] To use such planning, the contributions made by the parent (plus any contributions currently being made by the child/employers) in any tax year must not exceed the greater of £3,600 or 100 per cent of the child's earnings.

ARE YOU CHEERFUL OR FEARFUL?

Where to invest your money now to cash in on recovery or fresh disaster

Is the world teeming with opportunity or full of danger right now? For shrewd investors, the answer is, of course, both – and if you make the right calls, you can expect to profit. There's no avoiding it: investing and risk go hand-in-hand. The truth is that understanding risk is less risky than not investing at all.

NOBODY HAS A CRYSTAL BALL

But what is risk? In its simplest sense, risk is the variability of returns. Investments with greater inherent risk must provide higher expected yields if investors are to be attracted to them. Risk can take many forms, including valuation risk (paying too much for an asset), currency risk, exchange rate risk, market risk, political risk and volatility. Assessing which investments will perform well in future is much harder than looking at which have done well in the past – nobody has a crystal ball.

LEADING RATHER THAN FOLLOWING THE HERD

To make money from the stock market, for example, you need to anticipate which companies everyone else will choose, and buy them first. This means leading rather than following the herd. When investment markets have fallen, it is human nature to shy away, fearing further losses. Yet history has shown that this is often the right time to buy. Likewise, when good news abounds and markets are making progress, it's easy to make the decision to invest – yet the optimism at such times often means stock prices are too high.

> "To make money from the stock market, for example, you need to anticipate which companies everyone else will choose, and buy them first."

DON'T MINIMISE THE CHANCE OF ACHIEVING YOUR GOALS

Risk is a fact of life for any investor. Thanks to inflation, there's even risk in doing nothing. To earn rewards you have to assume some level of risk. If you minimise risk you may also minimise your chance of achieving your goals.

Understanding the level of risk you are willing to take is crucial – a process known as 'risk profiling'. This is essential as the more accurate your risk profile, the greater the chance of selecting the most suitable investments for your needs.

AN IMPORTANT PART OF THE RISK PROFILING PROCESS

Of course, your personal circumstances form an important part of the risk profiling process. Are you investing for retirement or looking to save for a luxury holiday? Your age is also important: if you are a young investor saving for a pension, you may be more likely to take higher levels of risk due to the greater length of time to recover short-term losses.

All types of investment carry some risk of making a loss; the main thing is to be comfortable that your investments represent, as closely as possible, a level of risk acceptable to you, and continue to do so.

HELPING YOU MEASURE YOUR APPETITE FOR RISK MORE PRECISELY

Historically, some of the measures of risk for various investments have been somewhat broad-brushed. Many investors have been categorised on three levels: 'cautious', 'balanced' or 'aggressive'. There are now many sophisticated risk profile questionnaires and online tools available to help you measure your appetite for risk more precisely, with investment strategies designed to match the outcome.

INCREASE YOUR CHANCE OF BETTER LONG-TERM RETURNS

There's no rule to say you have to have a diversified portfolio, but investors who focus on one area will only be right some of the time. Diversifying increases your chance of better long-term returns. This includes choosing investments across different asset classes (for example, shares, bonds and commodities), geographical regions and also fund management styles. Bear in mind that your portfolio can also be too diversified. Too many investments and your portfolio will tend towards the average and simply track the market.

Remember that over time, as your personal circumstances and the economic outlook change, so too might your attitude to risk. So it's essential that you regularly review your investments to make sure they continue to reflect your needs. ■

Creating and maintaining the right investment strategy plays a vital role in securing your financial future. Whether you are looking to invest for income or growth, we can provide the quality advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals. Please contact us for further information.

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.

> Trusts and inheritance tax (IHT) planning – and the right advice – can help you and your family avoid making the taxman your largest beneficiary when you die.

PASSING ON YOUR WEALTH

How to make sure loved ones get your hard-earned money and not the taxman

Financial planning doesn't end at your retirement. For most of us, protecting our savings for those we leave behind is a priority, even if it means making tough decisions today. It makes sense to plan for the future, whether it is for yourself or your business. Tailored wealth succession planning enables a smooth transition to the next generation. It also helps minimise tax liabilities.

ORGANISING YOUR FINANCIAL AFFAIRS WELL IN ADVANCE

Trusts and inheritance tax (IHT) planning – and the right advice – can help you and your family avoid making the taxman your largest beneficiary when you die. So, to make sure that the right people benefit from the estate you leave behind, it makes good sense to organise your financial affairs well in advance.

NOTHING IS CERTAIN BUT DEATH AND TAXES

When Benjamin Franklin said, 'In this world nothing is certain but death and taxes', he probably hadn't made a will and ensured through careful planning that the taxman would not be the first in line with a claim on the Franklin estate. Your estate is basically everything you own, including any property, such as your home, your car, your life assurance policies and any other investments. It also includes any valuable items such as jewellery.

LOTS OF WAYS TO MANAGE YOUR IHT BILL

But there are lots of ways to manage your IHT bill long before you even get to that point. The basic premise is that when you die, the value of all your assets, whether property, investments, the odd Cezanne you might have stashed away or even life insurance payouts are added up. Take away the current 2012/13 IHT threshold of £325,000 and whatever is left is subject to a 40 per cent tax charge. So if your assets are worth £450,000, the bill your heirs face would be 40 per cent of £125,000 – that's £50,000.

Couples in registered civil partnerships or marriages can leave their entire estate to their spouse when they die. When the remaining spouse dies, the estate gets the double allowance – in other words currently £650,000 - before IHT is payable.

BEING GENEROUS WHILE YOU'RE STILL BREATHING

After that, it's all about being generous while you're still breathing. You could reduce your IHT rate to 36 per cent by giving money to charity during your lifetime. You can give away cash up to £3,000 a year free of IHT (gifting £3,000 from the previous tax year if not used), or as many small gifts of up to £250 per individual as you like. Or you could give away the lot and potentially sidestep IHT (as long as you don't receive any benefit from the assets), including putting assets in trust for a beneficiary. This can be particularly effective when it comes to life insurance policies.

THE BASICS OF HOW TO LIMIT YOUR INHERITANCE TAX LIABILITY

Make a will. By writing a valid will you can make sure that your estate goes to the people you want it to

Transfer unused tax-free allowances. Spouses and registered civil partners can inherit from each other without paying IHT. Your executors can also use any unused nil-rate band from your deceased spouse or civil partner's estate

Make gifts. The tax rules allow you to make certain gifts out of your estate that are immediately exempt from tax and others on which the IHT liability reduces gradually. Any gift made more than seven years before your death is exempt from IHT

Use a trust. A trust is an arrangement that can help you to remove money from your estate so that it may not be liable for IHT in the future. There are different types of trusts for different circumstances. Investment bonds, life assurance policies and pensions can all be protected from IHT by using an appropriate trust. Some trust arrangements even allow you to receive a regular payment from your investment during your lifetime. ■

MITIGATING AGAINST IHT REALLY SHOULDN'T BE AN ACTIVITY EXCLUSIVELY FOR THE RICH AND FAMOUS

There are many approaches to reducing your IHT liability. Some are more complex than others and may not be suitable for you. Mitigating against IHT really shouldn't be an activity exclusively for the rich and famous. Obtaining professional financial advice will enable you to consider various planning strategies to help you keep more assets in the family. To find out how we could help, please contact us for further information.

All figures relate to the 2012/13 tax year. Taxation levels and the basis of reliefs are dependent on current legislation, individual circumstances are not guaranteed and may be subject to change. The Financial Services Authority does not regulate estate planning, wills or trusts.

EU LAWMAKERS CHANGE ANNUITIES FOR GOOD

Q&A

Men and women will have to be treated the same when it comes to annuity rates

From 21 December 2012 (G-Day), the new European gender law means that men and women will have to be treated the same when it comes to annuity rates.

We have provided answers below to some of the questions asked about how from this date it may affect enhanced annuities, investment-linked annuities and fixed-term annuities.

Q: What is the Gender Directive?

A: The European Court of Justice ruled last year that the current exemption to the Gender Directive, which allows gender-specific pricing for insurance contracts, is not consistent with the EU's long-term principles of equality.

As a result, from 21 December 2012, it will not normally be lawful to offer clients different insurance rates for males and females. This means that annuities will generally need to be written on unisex terms.

Q: What is the scope of the Gender Directive?

A: The Gender Directive relates to contracts taken out by individuals. Any member purchasing an annuity from Defined Contribution Schemes using their Open Market Option would fall within the scope of the Directive.

Q: Why will it af ect annuities?

A: From 21 December 2012, providers will no longer be able to use gender as a factor when determining annuity rates offered to individuals.

Annuity providers currently assume that males generally have shorter life expectancies than females. This is the reason that males are normally offered better annuity rates than females. In future, males and females must be provided with the same annuity rates. This means that annuity rates are likely to fall for males, but could improve for females.

Q: How will providers calculate their unisex annuity rates?

A: Annuity providers are likely to calculate their annuity rates by 'blending' their male and female rates. This means that their unisex annuity rates are likely to fall somewhere between their current male and female rates.

Exactly where the unisex annuity rate ends up will depend on how much weighting each provider gives to its male and female rates. This will be determined by the proportion of the business they expect to write for each sex.

For example, if a provider expects a large proportion of its business to be written on females (as is likely to be the case in the immediate aftermath of G-Day), their unisex rate will be weighted more towards the female rate. This would result in a bigger drop for male annuity rates and little gain for females. On the other hand, if a provider expects more of its business to be written on males, their unisex rate will be weighted more towards the male rate. This would result in a smaller drop in male annuity rates and a bigger gain for females.

Q: Why will it af ect pensions?

A: From 21 December 2012, providers will no longer be able to use gender as a factor when determining the Government Actuary's Department (GAD) maximum available to individuals.

The Government Actuary's Department currently has separate tables for males and females due to differences in life expectancy. This is the reason that males are normally offered higher GAD maxima than females. In future, males and females must be provided with the same maxima and HM Revenue & Customs has confirmed that for the time being that will be the current male table. This means that the maximum income rate will stay the same for males, but improve for females. For new business, cases completing on or before 20 December 2012 will be subject to the current GAD tables; for those completing on or after 21 December 2012, both males and females will be subject to the existing 2011 table for the male rate.

For existing pensions business, cases that have reviews where the reference period starts on or after 21 December 2012 will be dealt with using the gender neutral GAD table even where the calculation is done using a nominated date up to 45 days prior to that date. ■

DO YOU NEED TO ACT NOW BEFORE 21 DECEMBER?

Anyone who wants to get their annuity in place by 21 December, mainly men for obvious reasons, should act immediately because if the contract isn't completed by then, it will have to be done on terms that are gender-neutral. If this could affect you, please contact us immediately so that we can review your options. Once taken, an annuity cannot be changed.

HIPPIES SET TO CASH IN EQUITY

Many working over-50s believe their home will play a significant part in funding their retirement

Over a quarter (28 per cent) of working homeowners over the age of 50 (1.9 million people [1]) plan to access the equity in their home to help fund their retirement, according to retirement specialist LV=, dubbing them the 'HIPpies' (Home Is Pension) generation.

LOW CONFIDENCE IN THE HOUSING MARKET

The LV= 2012 HIPpies report reveals that despite low confidence in the housing market, many working over-50s still believe their home will play a significant part in funding their retirement. While over a quarter are planning to use the equity in their home, nearly half (49 per cent) of homeowners aged over 50 say they would consider downsizing to a smaller property, or using an equity release product (17 per cent) to access the money in their property during retirement.

Many over-50s are faced with the reality that their house may not be as valuable as they had once hoped, with 39 per cent of homeowners over 50 believing that their property has decreased in value over the last three years by an average of £21,749 – a massive £58 billion [2] collectively.

INVESTING IN PROPERTY TO FUND RETIREMENT

In order to maximise the money they could use from their property, 18 per cent of over-50s who believe their property value has fallen aim to wait for their property value to improve before considering using the equity to help fund retirement, and a further 9 per cent plan to make improvements to their home to try and increase its value. Despite the uncertainty in the housing market, more than half (54 per cent) of over-50s with children would recommend that their child invests in property to fund their retirement.

DELAYING RETIREMENT FOR FINANCIAL REASONS

With finances being stretched from all angles, it is no surprise that over a third (35 per cent) of over-50s admit they may need to delay their retirement for financial reasons, with an additional fifth (20 per cent) looking at ways to boost their retirement income before they retire, such as taking a second job or taking in a lodger. One in seven (14 per cent) will be retiring when they planned but will take a lower income in retirement than they originally thought they would. Worryingly, one in six (16 per cent) are not thinking about their retirement finances at all.

PROVIDING AN ADDITIONAL STREAM OF INCOME

Turbulent times may still be ahead for the UK economy, but despite the uncertainty surrounding the housing market the HIPpies generation have not been discouraged. The number of over-50s planning to use their home as their pension has remained stable when compared to the LV= 2011 HIPpies report. A property is often the largest asset people have, so, if appropriate, it makes sense for them to see it as a way of helping to provide an additional stream of income for them when they retire.

CASHING IN TO SUPPLEMENT RETIREMENT INCOME

As well as using the cash in their property to supplement their retirement income, one in ten (10 per cent) of those aged over 50 plan on using the money locked in their home to help their children or grandchildren to buy a new home, save for a wedding or help with school fees. A further tenth (10 per cent) also plan to use the money to pay for care in retirement. While many are accessing the money in their homes through necessity, 5 per cent plan to use it to fulfil a lifelong ambition in retirement, such as travelling around the world or buying a boat.

SIGNIFICANT CONCERN TO THOSE SAVING FOR RETIREMENT

Low interest rates are a significant concern to those saving for retirement, as the interest received on savings has fallen significantly since the start of the recession. A third (33 per cent) of homeowners aged over 50 said they would be pleased if rates rose, as the positive effect on their savings would outweigh any increase in the cost of paying back debt. Just over one in ten (13 per cent) say an increase in the base rate would reduce their retirement income, as the increased cost of paying debts such as loans and credit cards would restrict their ability to save.

All 2012 figures taken from research carried out for LV= by Opinium Research from 28 August to 3 September 2012 amongst 1,051 UK adults aged over 50 and in employment.

According to the 2012 ONS Labour Force Survey, there are 8,437,258 over-50s currently in full or part-time employment. 81% of these own their own home, giving a base of 6,834,179.
[1] 28% of over-50s are still working and own their own home – 28% of 6,834,179 gives a nationally representative figure of 1.9 million.
[2] 39% of over-50s who are homeowners and who have not retired said their property has decreased in value – the average value wiped off properties is £21,749. 39% of 6,834,179 is 2.66 million. This is then multiplied by £21,749 to give a total of £57.9 billion rounded to £58 billion.

With the purse strings being firmly tightened, it is impossible to ignore the need for those aged over 50 to consider additional sources of retirement income. Planning ahead is vital and seeking professional financial advice is essential. To discuss how we could help you arrange your financial affairs to build a bigger income for your retirement, please contact us for further information.

MAKING IT 'PERSONAL' IS CRITICAL TO RETIREMENT SAVING IN THE UK

Auto-enrolment signals a new era in workplace communications

October saw the start of the UK's new pension auto-enrolment system, which is expected to take six years to be fully rolled out. Under the new system, initially any workers over 22 years old and under the state pension age, not already in a scheme and who earn more than £8,105 a year will automatically be enrolled.

THE UK'S LARGEST FIRMS

Workers employed by the UK's largest firms (those employing more than 120,000 people) from 1 October 2012 have started to be automatically enrolled into company pension schemes. Between now and 2018 all other employers will have to ensure that UK-based workers aged over 22 years and earning a minimum of £8,105 (for the current 2012/13 tax year) are also enrolled into a pension.

EARNINGS ALLOCATED TO A WORKPLACE PENSION

Employees will initially see a minimum of 0.8 per cent of their net earnings allocated to their workplace pension. Their employer will contribute 1 per cent of their earnings and tax relief adds a further 0.2 per cent. From October 2018, these amounts will increase to a minimum of a 4 per cent contribution from the employee, 3 per cent from the employer and 1 per cent in tax relief.

GETTING THE NATION'S WORKERS SAVING

The Department for Work and Pensions (DWP) estimates that 380,000 workers were signed up during October alone, increasing to 600,000 by the end of this year. The government believes that Britain's employers hold the key to getting the nation's workers saving for their retirement, but to be successful they will need to find innovative ways of discussing money matters in the workplace.

THE SUCCESS OF AUTOMATIC ENROLMENT

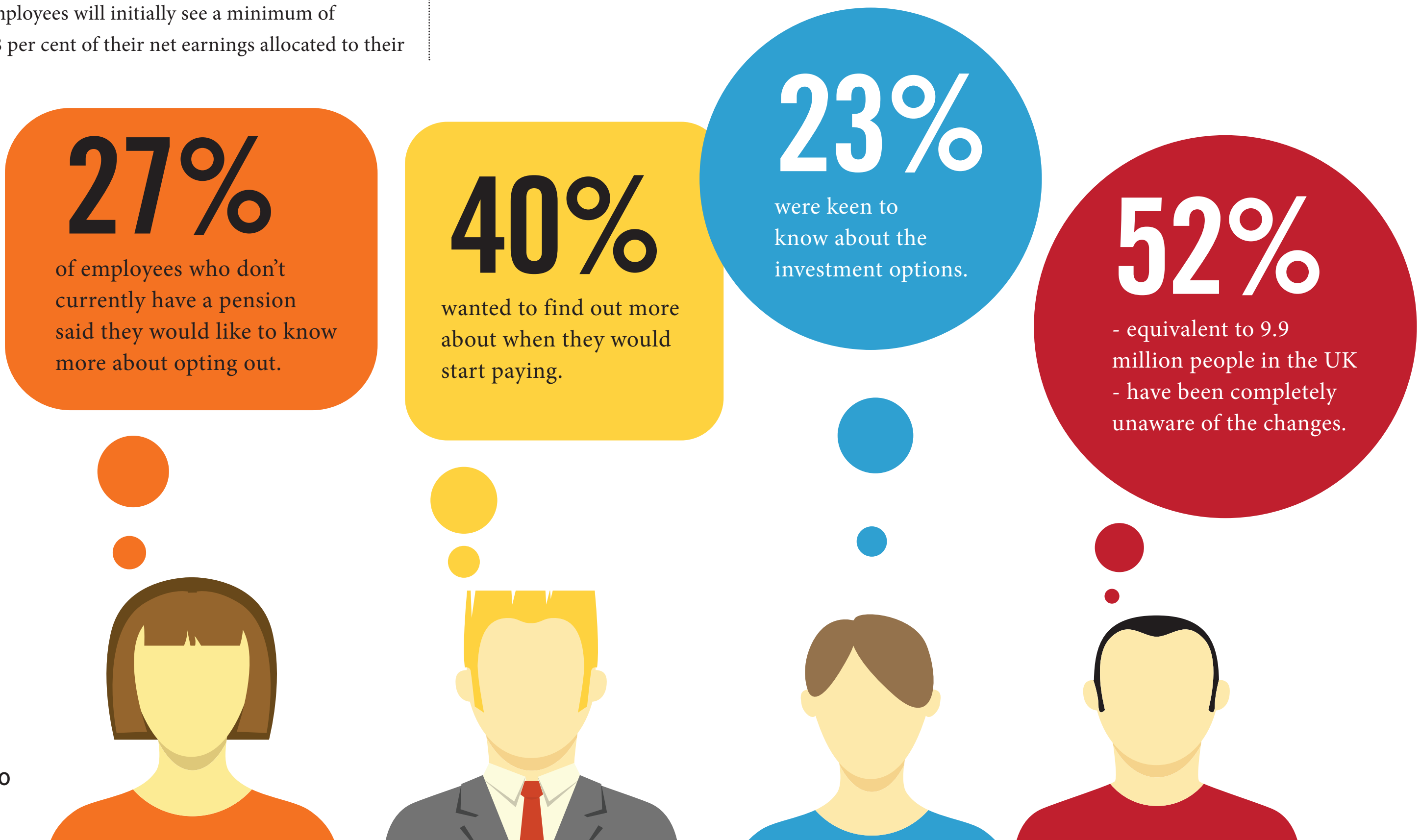
It is essential that employers consider their pension options carefully before deciding on the best solution for their business and employees. Working closely with employees to actively engage with them on how they could personally benefit is also essential to the success of automatic enrolment.

WORKERS UNAWARE OF THE CHANGES

The Scottish Widows Workplace Pensions Report 2012 reveals that 52 per cent of workers – equivalent to 9.9 million people [1] in the UK – have been completely unaware of the changes, despite an increase in the average amount people are willing to save for retirement.

EXPECTATION TO HEAR MORE FROM THE GOVERNMENT

A survey was carried out for Standard Life [2] in August this year to find out more about the levels of awareness and interest in automatic enrolment among employees in Britain who don't have a pension. It found that more than four fifths (83 per cent) of those surveyed who would be interested in finding out more would expect to find out more from their employer, while over half (54 per cent) would expect to hear more from the government.



KEEN TO KNOW ABOUT THE INVESTMENT OPTIONS

When asked what aspect they would like to find out more about, nearly three fifths of employees (58 per cent) said they would like to know more about how much they would need to contribute; two fifths (40 per cent) wanted to find out more about when they would start paying; and almost a quarter (23 per cent) were keen to know about the investment options. Just 27 per cent of employees who don't currently have a pension said they would like to know more about opting out.

HELPING PEOPLE TO SAVE MORE FOR THEIR RETIREMENT

For many employers and employees in the UK, the introduction of auto-enrolment is still some way off, due to the staggered start dates. For several years now, there has been a downward trend in the number of people actively saving into a workplace pension. This trend should be reversed as more people are helped to save more for their retirement.

EMPLOYERS HAVE AN IMPORTANT ROLE TO PLAY

Communicating the benefits of being enrolled into a workplace pension is essential to the success of auto-enrolment. Employers, the government and pension scheme providers all have an important role to play in this respect. There is clearly still a gap to close and a TV and print advertising campaign by the Department of Work and Pensions has been launched to help people understand the opportunity workplace pensions bring. ■

MAKE THE MOST OF YOUR RETIREMENT OPPORTUNITIES

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension requirements. Whether you need to set up or review existing pension arrangements, for you or your employees, we can discuss ways to help you make the most of the different retirement opportunities. Please contact us, don't leave it to chance.

[1] Calculated by the pension regulator/employers/staging-date-timeline

[2] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,125 adults, of which 1,098 confirmed they were workers and 387 of them did not have a pension. Fieldwork was undertaken between 29–31 August 2012. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

PEOPLE DON'T PLAN TO FAIL, BUT THEY DO FAIL TO PLAN

What financial New Year's resolutions will you make?

There's a saying that goes, 'People don't plan to fail, but they do fail to plan.' The run-up to Christmas is the perfect time to review your financial goals for the start of the New Year. Setting financial goals is all about starting with the end in mind – thinking about the outcomes you are hoping for. If you are clear about what you are trying to achieve it will help you to make good investment decisions.

ORGANISING YOUR FINANCIAL LIFE MEANS STOP PROCRASTINATING

People are typically great planners when it comes to life's 'fun activities'. We plan holidays months in advance, have no trouble putting together birthday and anniversary party 'to do' lists and easily imagine how we'll spend our retirement decades before we get there. But when it comes to organising our financial lives, the energy to plan sometimes seems to vanish into thin air. It's a task many people procrastinate over or avoid altogether.

DESTINATIONS YOU AIM TO REACH WITH THE WEALTH YOU BUILD

Financial planning is a journey and your financial goals should be the destinations you aim to reach with the wealth you accumulate over time. For most people a comfortable retirement is the single most common goal, but most of us have more than one goal. So it's important to identify each goal and arrange them by the time horizon you have set for achieving them.

A FINANCIAL GOAL MUST HAVE A TIME FRAME

Setting tangible and realistic goals, following them and tracking your progress are the key to success in achieving all of your financial aims. Each must have a time frame in which it needs to be achieved. If the time frame is open-ended, how will you know when the money is needed? How will you track your progress? How will you know how much you will need to invest over time?

You might find it easier to break your financial goals into short, medium and long-term. Some of your goals might be specific – for example, to buy a classic car, go on a dream holiday, buy a second home abroad or aim to retire by the age of 50.

TRACKING YOUR PROGRESS FORCES YOU TO BE ACCOUNTABLE

Write your financial goals down at the beginning of the year and then review them throughout the year to track your progress. The exercise of discussing and writing down your goals will force you to be accountable.

We can help you work out how much you might need to save and invest to reach your goals or the return you might need if investing a lump sum. You'll also need to factor in inflation. Fixed-income investors are typically the most affected by inflation, so this needs to be considered.

Other goals could be more indeterminate, such as 'I want financial security'. You may find it helpful if you think about what a goal means in monetary terms. For example, financial security could mean to become mortgage-free sooner rather than later, having enough income to live comfortably and some capital to fall back on. ■

TIME TO TAKE STOCK OF YOUR FINANCIAL FUTURE?

Financial goals can help you plan your finances more efficiently. You can set one goal, or several goals as part of an overall financial plan. The products suitable for achieving your goal or goals will depend on your resources and individual factors such as timescales and attitude to risk. The start of a New Year is the perfect time to take stock of your financial future. Please contact us to discuss your dreams and aspirations; don't leave it to chance.

A VITAL ROLE IN SECURING YOUR FINANCIAL FUTURE

Creating and maintaining the right investment strategy

The single best way to protect your portfolio is to spread your risk across several different types of investments. There are many different assets in which you can invest, each with different risk characteristics. While the risks attributable to assets cannot be avoided, when managed collectively as part of a diversified portfolio, they can be diluted.

THE OVERALL LEVEL OF RISK EXPOSURE

The main assets available are shares, bonds (also referred to as 'fixed interest'), cash and property. While individual assets have a bearing on the overall level of risk you are exposed to, the correlation between the assets has an even greater bearing.

The aim is to select assets that behave in different ways, the theory being that when one is underperforming, the other is 'outperforming'. Fixed interest investments and property, for example, behave differently to share-based investments by offering lower, more consistent returns. This provides a 'safety net' by diversifying away many of the risks associated with reliance upon one particular asset.

SPREADING INVESTMENTS ACROSS DIFFERENT ASSETS

Keeping track of lots of individual assets can be a daunting task. A much simpler solution is to acquire investment funds containing those assets and leave the diversification worries to a professional management team. By purchasing a fund that invests in, say, large blue chip companies, another that invests in smaller growth companies and others that invest overseas, you can spread investments across hundreds of different assets.

REDUCE SHARE-SPECIFIC RISK INVESTMENTS

You can diversify within assets. For example, you can spread your investments into different shares or bonds to ensure your portfolio is exposed to lots of different types of investments rather than, for example, having shares in just a few large companies. In that way, share-specific risk can be reduced should one of those companies experience difficulties.

DIFFERENT SECTOR AND COMPANY EXPOSURE

It is just as important to spread your investments across different sectors as well as different companies. Companies are classified by the sector in which they reside, which is dependent on the goods or services they sell or provide. BT, for example, resides in the Telecommunications sector and Shell in the Oil and Gas sector.

For many reasons, companies within different sectors perform in very different ways. By diversifying across sectors you can access shares with high growth expectations, without overexposing your portfolio as a whole to undue risk.

GEOGRAPHICAL DIVERSIFICATION CAN ACHIEVE BETTER RETURNS

It may be natural to feel more comfortable investing a portfolio in your home market, but this is not necessarily the most sensible option. Because investments in different geographical economies generally operate in different economic cycles, they have less than perfect correlation. That's why greater geographical diversification can help to offset losses in a portfolio and help to achieve better returns over time.

AN INVESTMENT STYLE TO SUIT YOUR NEEDS

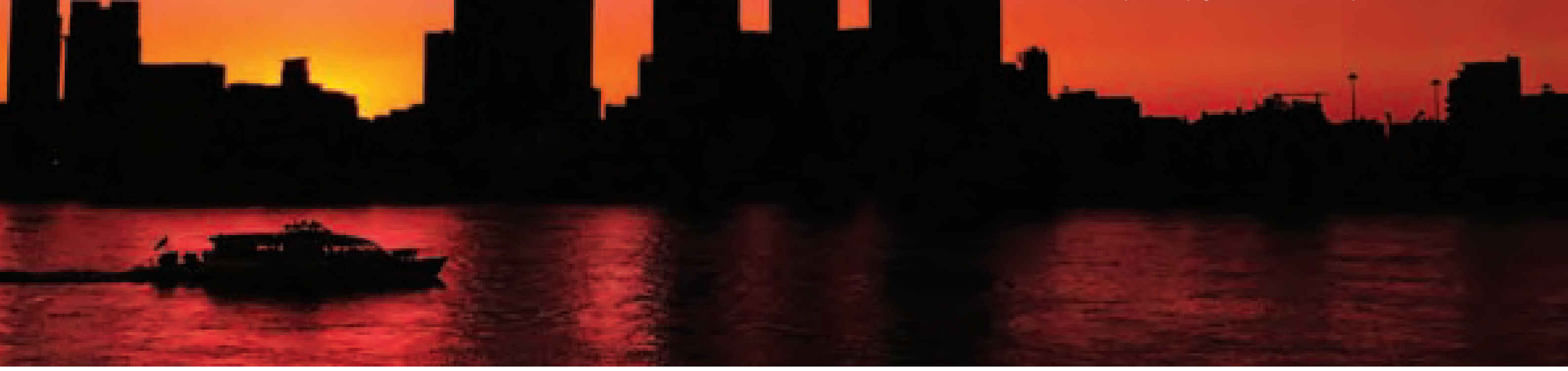
Investment style is another important aspect to consider when building an investment portfolio. Some investment funds use a 'passive' management approach, which aims to mirror or 'track' the performance of a financial index. This is normally done either by investing in the exact constituents of an index or by taking a representative 'sample' of that index.

This means that these funds simply track the performance of a chosen index, for example the FTSE 100. Other funds use an 'active' approach and aim to beat the index by using their own research and analysis to select shares they believe will achieve greater returns. There are many reasons for using both types of strategies, and obtaining professional financial advice will enable you to assess which approach is best suited to your needs. ■

WANT TO ESTABLISH THE MOST APPROPRIATE BLEND OF ASSETS FOR YOU?

Picking the right balance of assets for your portfolio depends upon your own risk profile. We take account of the information gathered about your own investment objectives and your risk profile to establish the most appropriate blend of assets for you. No matter what your investment goals are and how much you wish to invest, we can work with you to develop the best portfolios for you. For more information, 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 can go down as well as up and you may get back less than you invested.



Published by **Goldmine Media Limited**,
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

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