



## COUNTRYWIDE FINANCIAL SOLUTIONS

NOVEMBER / DECEMBER 2015

### FINANCIAL *GIFTS* FOR CHRISTMAS

Give your children or grandchildren a financial present they can unwrap

### EVALUATING YOUR FUTURE FINANCES

New possibilities in retirement, and the options available to you

### IT WON'T HAPPEN TO ME

If you couldn't work due to a serious illness, how would you manage?

#### AUTO ENROLMENT

Reaping the benefits of workplace pension savings

#### DON'T PANIC

Overvalued Chinese shares come to a shuddering halt after hitting a seven-year peak

#### WRAP UP WITH AN ISA

A tax-efficient integral part of your investment strategy

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## INSIDE THIS ISSUE

Working out how to make adequate financial provision for retirement is one of the most important financial decisions most of us will ever face. On page 08, we consider how it can be a daunting topic, with the options seeming to be overwhelming. Over the past year, there has been a seismic change to the retirement landscape with the introduction of the Government's 'pension freedoms' announced in the 2014 Budget.

On page 10, with Christmas just round the corner, making an investment for your children or grandchildren is a great way to give them a financial start in life, long after the festivities are over. Even small amounts can really add up if you save regularly from a child's birth, and there are many ways to invest on behalf of a child.

No one likes to think that something bad will happen to them. If you couldn't work due to a serious illness, how would you manage? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and you might want to consider income protection insurance. Turn to page 04 to find out more.

Also inside this issue, we look at taking risk with some of your money to achieve a sustainable retirement income, putting money aside for the proverbial rainy day, and how wrapping up with an ISA can be very tax-efficient. The full list of the articles featured in this issue appears opposite.

We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

Need more information? Simply complete and return the 'Information Request' on page 03.

# 10

**FINANCIAL GIFTS  
FOR CHRISTMAS**



## CONTENTS

### 03 THE VALUE OF EDUCATION

UK parents believe university is now unaffordable for most

### 04 IT WON'T HAPPEN TO ME

If you couldn't work due to a serious illness, how would you manage?

### 05 SAVING FOR RETIREMENT

Older workers delaying retirement to release cash from their savings

### 05 WRAP UP WITH AN ISA

A tax-efficient integral part of your investment strategy

### 06 EVALUATING YOUR FUTURE FINANCES

New possibilities in retirement, and the options available to you

### 07 AUTO ENROLMENT

Reaping the benefits of workplace pension savings

### 08 FINANCIAL DECISIONS

Flexibility to use your pension pot in the way that suits your needs

### 09 PUTTING MONEY ASIDE FOR THE PROVERBIAL RAINY DAY

Long-term investors rewarded by compound performance

### 10 FINANCIAL GIFTS FOR CHRISTMAS

Give your children or grandchildren a financial present they can unwrap

### 11 DON'T PANIC

Overvalued Chinese shares come to a shuddering halt after hitting a seven-year peak

### 12 AIMING FOR BETTER RETURNS

Taking risk with some of your money to achieve a sustainable retirement income

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# THE VALUE OF EDUCATION

*UK parents believe university is now unaffordable for most*

Many UK parents will now be reviewing how they will help their children pay for a university degree. With tuition fees alone costing an average £9,000 a year, university is a significant investment for both parents and students.

**A**n annual HSBC report, the 'Value of Education Learning for life', shows that although 71% of surveyed parents think university is unaffordable for most people in the UK, nearly half (48%) believe an undergraduate degree or higher is necessary for their children to achieve their life goals.

More than two thirds of surveyed parents (72%) have a specific occupation in mind for their child, and the lengthier (and often more costly) degrees of engineering (11%) and medicine (10%) top the list of parents' preferred courses.

## PARENTS EXPECT TO REPAY UNIVERSITY DEBT FOR EIGHT YEARS

The survey found that although parents see independence (86%) and learning to be financially responsible (82%) among the most important skills university offers, they still expect to support their children financially throughout university.

More than nine in ten parents said they will contribute to their child's tuition fees and/or living costs.

After a mortgage, a university degree can be the most significant debt families have to repay. UK parents who currently borrow, or plan to borrow, to fund their children's university costs expect to repay the debt for eight years and for their children to be paying off their share for 12 years.

## PARENTS WILLING TO PAY MORE FOR OVERSEAS EDUCATION

Despite the cost, nearly two thirds of UK parents (67%) would consider sending their child abroad to university. Of those parents, 59% would be prepared to pay more for the experience compared to what they would pay to educate their child in the UK.

The main reason parents would not consider sending their child to study at university abroad is that they do not want their child to be that far away from home (25%) or they cannot afford it (24%). ■

## MAKE SURE YOUR NUMBERS ADD UP

Many UK parents feel a responsibility to help pay for their children's education, but despite best laid plans, by the time their children reach university age, some parents haven't saved as much as they had intended. With the cost of university continuing to rise, planning ahead can help ease financial pressure. Being prepared by understanding options available and taking action early can give parents the confidence that they can support their children through university in years to come.

### Source:

*The Value of Education Learning for life UK Report was published in July and represents the view of 5,500 parents in 16 countries, including 352 UK parents. The findings in this report are based on a nationally representative survey of 352 parents in the UK, who have at least one child aged 23 or younger currently (or soon to be) in education, and who are solely or partially responsible for making decisions about their child's education. The research was conducted online by Ipsos MORI in March and April 2015.*

### READER REPLY

## WANT TO MAKE MORE OF YOUR MONEY?

For more information please tick the appropriate box or boxes below, include your personal details and return this information directly to us.

Name .....	<input type="checkbox"/> Arranging a financial wealth check
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.....	<input type="checkbox"/> School fees/further education funding
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# IT WON'T HAPPEN TO ME

*If you couldn't work due to a serious illness, how would you manage?*

No one likes to think that something bad will happen to them. If you couldn't work due to a serious illness, how would you manage? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and you might want to consider income protection insurance. Currently, 10.8 million UK households are at risk of their income falling by at least a third if the main earner stopped working due to ill health<sup>[1]</sup>.

## LONG-TERM ABSENCE

Whether or not you have children or other dependants, if illness would mean you couldn't pay the bills, you should consider income protection insurance; with 131 million days lost to sickness absence every year<sup>[2]</sup>, the reality is that it's not just the odd day off that could impact on you – a long-term absence could be a real possibility. You're also most likely to require it if you're employed or self-employed and you don't have a sick pay arrangement to fall back on.

Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you're ill or injured, and typically pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner.

## WAITING PERIOD BEFORE PAYMENTS START

There's a waiting period before the payments start. You generally set payments to start after your sick pay ends, or after any other insurance stops covering you. Usually, the longer you wait, the lower the monthly payments.

Policies may cover most illnesses that leave you unable to work, either in the short or long term (depending on the type of policy and its definition of incapacity), and you can claim as many times as you need to while the policy lasts.

## EMPLOYMENT SUPPORT ALLOWANCE

The average UK household spends £1,503 a month<sup>[3]</sup>, and any Employment Support Allowance would only provide up to £125.05 a week.

Half of Britons questioned for a new study by insurer Zurich displayed a classic 'it won't happen to me' attitude, believing they have a less than one in ten chance of being unable to work through disability.

## FEW HAVE ANY PROTECTION

Worryingly, only four in ten have any awareness of how to protect their income should they become

unable to work due to health reasons, and few have any protection in place.

As well as underestimating their chances of being unable to work because of medical reasons,



people also believe that if it does happen, it will occur later. Just under half believe that those aged between 45 and 54 are at highest risk when, in reality, the likelihood increases from the age of 40 to almost one in five, and by 55, as many as 28% can no longer work.

## MAINTAINING A CURRENT LIFESTYLE

Looking at the impact on their finances, 44% of Britons anticipate their income being cut by up to half if they became unable to work due to disability, and only 15% say they could maintain their current lifestyle with this reduction.

State benefits are considered to be the main source of alternative income, though only a fifth think they would be eligible for support if their household income dropped by 30%.

## EMPLOYERS NOT OFFERING INCOME PROTECTION

Interestingly, payments by insurers are thought to play a minor role, with 70% of respondents saying their employers didn't offer income protection, and three quarters having no such cover.

In reality, however, figures show that 16% of the working age population in the UK suffer a disability that prevents them from working, and around 300,000 people a year fall out of work and into the welfare system because of health-related issues<sup>[4]</sup>. ■

## MEETING YOUR IMMEDIATE COSTS OF LIVING AND LIFESTYLE

Income protection insurance is designed to provide you with peace of mind that should the worst happen, you will be able to continue to meet your immediate costs of living and lifestyle. Generally, it's cheaper than most people think, and in the majority of cases, some cover is better than none at all. If you would like to review your current situation and ensure you're fully covered, please contact us for further information.


### Source:

[1] ABI Welfare Reform for the 21st Century.

[2] ONS – Sickness Absence in the Labour Market, February 2014.

[3] Aviva Family Finances Report, December 2014.

[4] [www.papworthtrust.org.uk](http://www.papworthtrust.org.uk) – 16% of adults at working age and 43% over State Pension age. Four out of five disabled people acquire their disability during their lives – [www.gov.uk/government/news/a-million-workers-off-sick-for-more-than-a-month](http://www.gov.uk/government/news/a-million-workers-off-sick-for-more-than-a-month)



# Saving For Retirement

*Older workers delaying retirement to release cash from their savings*

One in four older workers could delay retirement after dipping into their pension pot, new research from Zurich shows.

## WORKING BEYOND PLANNED RETIREMENT DATE

Just over a quarter (26%) of over-55s in employment said they would be likely to work beyond their planned retirement date after using the pension freedoms to release cash from their savings.

Over a third (35%) of those who said they would put their retirement on hold claimed they would be likely to work for a further five or more years, while a quarter (23%) would prolong their careers by two years.

## FAR-REACHING EFFECT ON RETIREMENT TRENDS

The pension freedoms could have a far-reaching effect on retirement trends. As many as a quarter of over-55s could delay retirement – some by more than five years – after unlocking cash from their pension. Increasingly, more people may use the reforms to boost their spending power. The freedoms give older employees a chance to access their pension by spending an amount of their savings and staying in work longer to top them up again.

In most cases, individuals who access their pensions will see a reduction in their annual allowance. This means the amount they can save into a pension tax-free will fall from £40,000 to £10,000. ■

## WORKING LONGER THAN ANTICIPATED TO PLUG A SAVINGS GAP

Some older workers who access their pension could face a squeeze on their contributions and find it harder to refill their pots, which could mean they end up working for longer than they anticipated to plug any gaps in their savings, while others might face a shortfall in retirement. If you would like to discuss your requirements, please contact us for more information.

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# WRAP UP WITH AN ISA

*A tax-efficient integral part of your investment strategy*

It's not going to be long before we see the arrival of the New Year, and with it the start of the ISA (Individual Savings Account) season. The 2015/16 deadline on 5 April 2016 is when you need to have taken full advantage of this year's ISA allowance.

ISAs are not products in their own right but are 'wrappers', designed to protect your investment from Capital Gains Tax (CGT), and also provide the opportunity for tax advantages on the income generated.

## HOW MUCH CAN YOU INVEST IN AN ISA?

There are two different types of ISA: a Stocks & Shares ISA and a Cash ISA. You can put your £15,240 ISA allowance for 2015/16 in a Stocks & Shares ISA, a Cash ISA or a mixture of the two.

You can also freely transfer any ISA savings you've built up previously between a Stocks & Shares ISA and a Cash ISA.

Cash can be held in a Stocks & Shares ISA and does not need to be held solely for the purpose of investing in assets, and from 6 April 2015, the Additional Permitted ISA allowance has become available to the spouse or registered civil partner of a deceased ISA investor.

## WHAT'S A CASH ISA?

It's basically a savings account where you don't pay tax on any interest you earn. So if you have any savings, it can be good idea to start with a Cash ISA.

## WHAT'S A STOCKS & SHARES ISA?

It's a tax-efficient investment account that lets you put your money into cash and/or different types of investments. With Stocks & Shares ISAs, any returns you make will be tax-efficient.

Remember, as with any investment, the value of your fund can go up or down and may be worth less than you paid in. ■

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# EVALUATING YOUR FUTURE FINANCES

*New possibilities in retirement, and the options available to you*

The recent pension freedoms have opened up new possibilities in retirement, allowing more of today's recent retirees to enjoy the sixty-something socialite lifestyle. Retirement can be one of the most liberating and exciting life stages, but to get the most freedom and enjoyment out of retirement, it is crucial for people to consider their finances and plan ahead.

## PENSION REFORMS PROVIDE A GOOD OPPORTUNITY

The pension reforms provide a good opportunity for people to really think about and evaluate their future finances, and the options available to them. New retirees are embracing their retirement with a whirlwind of socialising, activity and travel on a par with those in their twenties.

New research from Standard Life reveals that 94% of recently retired adults don't feel like they fit the image of a stereotypical pensioner. Freedom (62%) and enjoyment (52%) are the most popular descriptions used by retirees to describe the first year of their retirement, so it's no surprise that this generation are every bit as lively as people in their twenties.

## BOTH AGE GROUPS DO SOMETHING 'ACTIVE'

On average, both age groups do something 'active', such as sports or exercise, between three and four times a week, and more than one in six retirees (17%) do something active every day compared to around one in nine (12%) of those in their twenties.

As for how social circles compare, retirees have just as many close friends as twenty-somethings – between five and six on average. 12% of the older generation have more than ten close friends – more than the 10% of twenty-somethings.

## WIDENING SOCIAL CIRCLES TO MEET NEW PEOPLE

While the rise of social media means young people are able to keep in closer contact with their friends easily, 89% of retirees say they speak to their close friends at least once a month – a similar figure to those in their twenties (96%). And today's retirees are also feeling confident widening their social circle to meet new people, with one in ten admitting they have tried online dating, and 12% of these meeting up with someone they met online for romance or friendship.

The research also revealed that most retirees (75%) like to go out to a social engagement or to eat at least once a week. Many enjoy a drink or two (69%), and amongst those who do drink, they do so on average three or four days a week, compared to twice a week for the younger generation.

## The most popular activities people take up during their first year of retirement are:

- Plan more holidays and go travelling (58%)
- Spend more quality time doing things with family and friends (48%)
- Do more exercise and sport (23%)
- Take up voluntary work (23%)
- Start a new hobby (22%)

## PLANNING AHEAD

To fund this active and social lifestyle later in life, planning ahead enabled them to worry less about their financial situation, with over three quarters

(77%) having an additional income alongside the State Pension. Over half (54%) were comfortable with their financial situation as they entered retirement, with a further 32% considering their finances as under control. ■

## PLANNING FOR RETIREMENT – DO YOU KNOW YOUR NUMBERS?

In the light of the pension reforms, whether you're just starting out and looking to set up your first pension or building on your existing retirement plans, please contact us if you would like to discuss your retirement plans – we look forward to hearing from you.

## Source:

All figures are from Opinium. Total sample size for the survey was 1,034 retirees and 1,022 young people aged 20–29. Fieldwork was undertaken in June 2015. The surveys were carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

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# AUTO ENROLMENT

## *Reaping the benefits of workplace pension savings*

Three years have passed since the introduction of auto enrolment, and employees are really starting to reap the benefits of workplace pension savings. New research has revealed that employer contributions are crucial to boosting pension savings for over half (54%) of those enrolled in a defined contribution pension scheme in the UK.

**T**he latest Scottish Widows' Workplace Pensions Report found that since the introduction of auto enrolment within large- and medium-sized businesses, more than half (52%) of employees in medium-sized businesses are now saving adequately – up six percentage points in the past 12 months – while four in ten (39%) now feel optimistic about their long-term future, compared to 36% in 2014.

### KEY RETIREMENT INCOME

The number of employees saving adequately in large businesses has leapt from 53% two years ago to 66%, as an increasing number look towards their workplace pension as a key retirement income.

Six out of ten workers in larger organisations said they will rely on a company pension for a reasonable standard of living in retirement, compared to 40% for employees working for medium businesses and just 32% for small businesses. There has been a marked increase on these figures across the board in the last 12 months, with the biggest increase – nine percentage points – seen amongst employees of large companies.

### CONSIDERING A CAREER MOVE

The research found more than a third of medium-to-large business employees see workplace pension

schemes as a major incentive when considering a career move. This suggests that in order to attract and retain talent, there is an increasing onus on employers to ensure their staff feel supported and understand the benefit of their workplace scheme.

With auto enrolment a significant driver behind the uplift in savings and positivity, smaller businesses yet to reach their staging dates are still significantly lagging behind. Just four in ten (40%) of employees of small businesses are saving adequately, while a third (30%) confess they are saving nothing at all towards retirement, compared to only 11% of those working for large businesses.

### FINANCIAL EDUCATION AND SUPPORT

While the findings demonstrate positive engagement with workplace savings amongst medium and large business employees, they also bring to light increasing pressure on employers to increase contributions and provide wider practical financial education and support.

More than a quarter (29%) of mid-sized organisations' workers and almost a quarter (24%) of employees at the largest organisations think that employers should increase contributions by a little each year. ■

### PROFESSIONAL FINANCIAL ADVICE

Almost a quarter (23%) of those working in larger companies say employers should pay for full professional financial advice, while 41% feel employers should provide information on how to budget for retirement. In comparison, those working for smaller businesses think that individuals should increase their own contributions or be reminded to do so by their employer, and only 27% think it's up to employers to provide budgeting advice.

#### Source:

*The Scottish Widows UK Workplace Pensions Report is based on an online sample of 5,191 UK adults conducted by YouGov between 31 March and 8 April 2015, and is one of the largest surveys into employee attitudes on pensions.*

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SIX OUT OF TEN WORKERS IN LARGER ORGANISATIONS SAID THEY WILL RELY ON A COMPANY PENSION FOR A REASONABLE STANDARD OF LIVING IN RETIREMENT.



# FINANCIAL DECISIONS

*Flexibility to use your pension pot in the way that suits your needs*

Working out how to make adequate financial provision for retirement is one of the most important financial decisions most of us will ever face. However, it can be a daunting topic, and the options may seem overwhelming. Over the past year, there has been a seismic change to the retirement landscape with the introduction of the Government's 'pension freedoms'.

**T**hese reforms – announced in the 2014 Budget and extended this year – give you the flexibility to use your pension pot in the way that suits your needs, with the aim of creating better financial outcomes for you and your family.

As long as you are over the age of 55, you have unlimited access to any Defined Contribution (DC) pension pot – to save, spend or invest as you see fit.

For many people, retirement now represents an opportunity to realise life-long ambitions, pursue new passions or help family members with their income needs.

## UNDERSTANDING THE OPTIONS

There is no easy answer or 'one-size-fits-all' solution, so it is important to understand the options. You do not have to choose just one option, and you may find that a 'mix and match' approach is the most appropriate for your situation.

### LEAVE YOUR PENSION POT UNTOUCHED

You may be able to delay taking your pension until a later date. Your pot then continues to grow tax-free, potentially providing more income once you access it.

### USE YOUR POT TO BUY A GUARANTEED INCOME FOR LIFE – AN ANNUITY

You can choose to take up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into a taxable income for life called an 'annuity'. There are different lifetime annuity options and features to choose from that affect how much income you would receive. You can also choose to provide an income for life for a dependant or other beneficiary after you die.

### USE YOUR POT TO PROVIDE A FLEXIBLE RETIREMENT INCOME – FLEXI-ACCESS DRAWDOWN

With this option, you take up to 25% (a quarter) of your pension pot or of the amount you allocate for

drawdown as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this may be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so your investments need to be managed carefully.

### TAKE SMALL CASH SUMS FROM YOUR POT

You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, the first 25% (quarter) is tax-free, and the rest counts as taxable income. There may be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

With this option, your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income, and it won't provide for a dependant after you die. There are also more tax implications to consider than with the previous two options.

### TAKE YOUR WHOLE POT AS CASH

Cashing in your pension pot will not give you a secure retirement income.

You could close your pension pot and take the entire amount as cash in one go if you wish. The first 25% (quarter) will be tax-free, and the rest will be taxed at your highest tax rate – by adding it to the rest of your income.

There are many risks associated with cashing in your entire pot. For example, it's highly likely that you'll be subject to a significant tax bill, it won't pay you or any dependant a regular income and, without very careful planning, you could run out of money and have nothing to live on in retirement.

### MIXING YOUR OPTIONS

You don't have to choose one option when deciding how to access your pension – you can mix and

match as you like, and take cash and income at different times to suit your needs. If you wish, you can also keep saving into a pension and get tax relief up to age 75.

**Which option or combination is right for you will depend on:**

- When you stop or reduce your work
- Your income objectives and attitude to risk
- Your age and health
- The size of your pension pot and other savings
- Any pension or other savings your spouse or partner has, if relevant
- Whether you have financial dependants
- Whether your circumstances are likely to change in the future

## OBTAIN THE RIGHT PROFESSIONAL FINANCIAL ADVICE

It's essential to obtain the right professional financial advice to ensure that you access your pension safely, without unnecessary costs and a potential tax bill. To discuss your situation, don't leave it to chance – please contact us.

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# PUTTING MONEY ASIDE FOR THE PROVERBIAL RAINY DAY

*Long-term investors rewarded by compound performance*

An investor who puts money aside over the long term for the proverbial rainy day is far more likely to achieve their goals than someone looking to 'play the market' in search of a quick profit.

**T**he longer you invest, the bigger the potential effect of compound performance on the original value of your investment. Many investors will be familiar with the term 'compounding' from owning cash savings accounts. The term refers to the process whereby interest on your money is added to the original principal amount and then, in turn, earns interest.

Over time, compounding can make a significant difference. Your investments can benefit from compounding in a similar way if you reinvest any income you receive, although you should remember that the value of stock market investments will fluctuate, causing prices to fall as well as rise, and you may not get back the original amount you invested.

Shares, bonds, property and cash react differently in varying conditions, and opting for more than one asset class can help to ensure your investments won't all rise or fall in value at the same time. Holding a portfolio of investments as part of a collective investment scheme can help to diversify the perils associated with investing in individual assets and markets, as well as less visible hazards such as inflation risk – the possibility that the value of assets will be adversely affected by an increase in the rate of inflation.

Investing in vehicles such as unit trusts, investment trusts and OEICs can also remove a lot of the difficulty associated with managing a broad portfolio. Above all, investors should aim for a level of risk they are comfortable with which reflects their investment objectives. ■

## TIME TO REVIEW YOUR SITUATION?

With the New Year rapidly approaching, now is the ideal time to start thinking about your investments for 2016 and beyond. To review your situation, please contact us – we look forward to hearing from you.

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## TYPES OF COLLECTIVE INVESTMENT SCHEME

### UNIT TRUSTS

Unit trusts pool funds together under one umbrella and then manage them en masse. Investors pay into the unit trust, which then buys assets such as equities or bonds on their behalf.

The monetary value of these assets is divided by the number of units issued when the fund is created to give an initial unit value. This value then fluctuates as the underlying assets trade daily and investors put money in or take money out. As there is no limit to how many units can be created or redeemed on an ongoing basis, unit trusts are known as 'open-ended funds'.

### INVESTMENT TRUSTS

An investment trust works along the same principle of raising money from investors to buy assets that it manages on behalf of them all. The main difference is that the investment trust is created by selling a fixed number of shares at the outset. As no new shares are created, investment trusts are known as 'closed-end funds'.

### OPEN ENDED INVESTMENT COMPANIES (OEICs)

OEICs are a mixture of a unit trust and an investment trust. OEICs issue shares rather than units but have a different pricing structure to unit trusts. OEICs are based on a single price structure which means buyers and sellers receive the same price.



# FINANCIAL GIFTS FOR CHRISTMAS

*Give your children or grandchildren a financial present they can unwrap*

With Christmas just round the corner, making an investment for your children or grandchildren is a great way to give them a financial start in life, long after the festivities are over. Even small amounts can really add up if you save regularly from a child's birth, and there are many ways to invest on behalf of a child.

## JUNIOR INDIVIDUAL SAVINGS ACCOUNT (ISA)

The first and easiest option to choose is a Junior Individual Savings Account (ISA), if the child is eligible. Junior ISAs are flexible, tax-efficient and can only be accessed by the child when they reach the age of 18. Parents and other relatives can save up to £4,080 in the 2015/16 tax year in a Junior ISA, and like adult ISAs, Junior ISAs can be held in cash or stocks and shares, or you can divide the allowance between both.

## CHILD TRUST FUND (CTF) TRANSFER INTO A JUNIOR ISA

Changes to CTF regulations now mean investors can choose to transfer existing Child Trust Funds into Junior ISAs. Junior ISA tax advantages may depend on your individual circumstances, and tax rules may change in the future.

Your existing CTF provider may make a charge for carrying out a transfer. If your child does not qualify because they have already used their Junior ISA allowance for the current tax year, or they have a CTF that they do not wish to transfer into a Junior ISA, then there are other options you could consider.

## NS&I CHILDREN'S BOND

You can invest between £25 and £3,000 tax-free for five years at a time until the child reaches 16, at which point they will gain control of the bond. The interest rate is guaranteed, so you'll know how much the investment will earn at the end of the five-year term.

But if you need access to the money before the end of the five years, you'll face a penalty – the equivalent of 90 days' interest on the amount you cash in.

## REGULAR SAVINGS

If you're able to commit to making monthly contributions, then you can often benefit from higher rates of interest with a regular savings account.

They're ideal for savers who are saving for something specific and wish to drip-feed cash into their account in a disciplined way, but these accounts will usually limit the number of withdrawals you can make each year and restrict the amount of money you can invest each month.

Be careful not to miss a payment or exceed the limit on withdrawals, as doing so can cost you interest.

## COMPLETE AN R85 FORM

In the 2015/16 tax year, each child is entitled to a tax-free allowance of £10,600. Make sure you complete an HM Revenue & Customs form R85, so that any interest will be paid free of tax.

If you haven't done this, you can reclaim it for them using form R40.

However, if you give your children money and it makes more than £100 a year before tax in interest (or £200 if both parents give money), all this income (not just the income over £100) will be taxed as if it were your own. This limit applies to income from gifts from parents only, not other family members.

## START INVESTING

When investing for children, it is a good idea to go for something that gives you exposure to a broad spread of companies and sectors. It is important to get the right balance between good growth potential and not taking too much risk.

You can hold investments on behalf of your child in a bare trust or a designated account. A designated account will be earmarked for your child but will be in your name and treated as your investment, and, as such, any income of over £100 will be taxed at your rate, whereas a bare trust will be treated as your child's for tax purposes. A designated account set up in the right way (i.e. irrevocable) is treated in the same way as a bare trust, and, in both cases, if funds originate from a parent and income exceeds £100pa, it will be taxed on the parent. The trustees of a bare trust have legal control until the child reaches the age of 18 (age 16 in Scotland).

## SET UP A PENSION

If you're thinking of taking a much longer-term approach, you could take out a pension on behalf of your child and pay in regular amounts. You can currently contribute up to £2,880 each tax year, which is increased to £3,600 including tax relief. When your child reaches the age of 18, ownership of the pension would transfer to them, and they could start making their own contributions. ■

## A WONDERFUL GIFT FOR THE FUTURE

Saving for a child today is a wonderful gift for their future. Not only can they start their adult lives with some savings in hand, but getting kids involved early with saving also helps them learn important lessons about money. To find out more, please contact us for further information.

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NS&I CHILDREN'S BONDS ARE NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

# DON'T PANIC

## *Overvalued Chinese shares come to a shuddering halt after hitting a seven-year peak*

In August, the Chinese Government attempted to stimulate the economy by devaluing its currency (the Renminbi) and suspending trading on many stocks. The effect of this caused a tsunami throughout both Chinese and global markets, followed by significant falls in global stock markets, including the S&P in the US and the FTSE in the UK. On 24 August, the day many in the media called 'Black Monday', the Chinese market was down by 8%, UK markets fell by over 4.5% and the US by over 3.5%<sup>[1]</sup>, with the FTSE falling below 6,000 on 22 September.

## OVERVALUED SHARES

Shares in China had soared 150% in the 12 months to mid-June as individual investors piled into the rising market, often borrowing heavily to do so. But the shares were overvalued and the momentum came to a shuddering halt when shares hit a seven-year peak.

About £74bn was wiped off the value of the FTSE 100, and, on Wall Street, the Dow Jones Industrial Average slumped by a record of more than 1,000 points at one stage.

## BUYING OPPORTUNITY

The falls need to be looked at in context of the overall picture. For instance, the FTSE 100 Index had broken its all-time high earlier this year, and the situation created a buying opportunity. It's worth remembering what investor and mutual fund pioneer Sir John Templeton said: 'The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.'

Professional investors haven't been filled with panic, regardless of the situation the media has portrayed. Most of them are viewing this as a 'market correction' – just bringing things that have got a little inflated back down to earth.

## REASONABLE MARGIN

Warren Buffett, the American investor and philanthropist, puts it very succinctly: 'Our favourite holding period is forever' Over the long term, investors do experience market falls which happen periodically. Generally, the wrong thing to do when markets fall by a reasonable margin is to panic and sell out of the market – this just means you have taken the loss. It's important to remember why you're invested in the first place and make sure that rationale hasn't changed.

Although headlines have focused on the decline in the Chinese stock market and the knock-on impact on other global investments, most commentators have not changed their long-term view on markets or the global economic outlook and remain cautiously optimistic on the outlook for equity and property markets, supported by an improvement generally in company profits. ■

## LONG-TERM VIEW

If you do decide to make changes to your investments, make sure they're for the right reasons. Don't react out of panic. And, if possible, take a long-term view. The longer you invest, the bigger the potential effect of compound performance on the original value of your investment.

### Source data:

[1] Google Finance, [www.marketwatch.com](http://www.marketwatch.com)

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# AIMING FOR BETTER RETURNS

*Taking risk with some of your money to achieve a sustainable retirement income*

**S**ourcing a sustainable retirement income is essential, but you also have more options than ever before to help you find a solution. After you have made adequate provision for your essential needs, you may want to consider if you can afford to take any risk with some of your money to aim for better returns.

If you have been investing for a number of years, you'll be familiar with the idea that 'risk' represents the chance for your investments to fall as well as rise in value. In general, higher-risk investments have a higher potential return, whereas lower-risk investments usually give a lower return. This still applies in retirement, but a bigger risk is the danger of running out of money too soon.

## FACTORS TO CONSIDER

**Longevity** – Rising life expectancies are undoubtedly good news. However, they are putting significant strain on both the state and private pension provision. In 1925, when the State Pension age was set at 65, average life expectancy for men was only 56<sup>[1]</sup>. By 2012, it had risen to 79.5, but the state retirement age – for now at least – remains at 65. When you are planning your retirement income, it is essential to consider carefully the risk of outliving the money you set aside for retirement.

**Inflation** – As prices rise over time, the real value of your money can be eroded. When you are working, your income generally gets inflation protection through annual pay rises. When you retire, inflation becomes much more of a risk if your income is not

rising. This is why you may wish to invest some of your money with the aim of growing your capital – and, therefore, your income.

Between December 1988 and December 2014, the cost of goods and services in the UK increased by 97.8%. This means £100 in savings in 1988 would almost have had to double – to £197.80 – to buy the same basket of goods and services in 2014<sup>[1]</sup>. To look at it a different way, your capital would have to grow by 2.5% a year, on average, just to keep pace with inflation.

**Income** – We all want to have the finances for a care-free retirement, but this is becoming increasingly hard to achieve. In recent years, pensioners have faced persistently low interest rates and declining returns on assets traditionally used for retirement income, such as UK government bonds (also called 'gilts'). The yields on UK government bonds are a key influence on annuity rates.

## RISK AND REWARD

It is important to keep enough cash available for short-term needs and to understand the potential risks involved in investing. While there are varying levels of income available across the different asset classes, assets that pay higher levels of income also have a higher risk of capital loss. Before you choose a particular income strategy, you need to be comfortable with the level of risk involved. ■

## HELPING YOU STAY ON TRACK

Whatever your financial targets, we can help you reach them. We'll review and discuss your financial situation, help you set goals and suggest specific next steps, discuss potential solutions, and provide ways to help you stay on track. If you would like to discuss your situation, please contact us.

### Source data:

[1] Office for National Statistics

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