December 2014 - newsletter

Introduction

This year has seen unprecedented changes in legislation, with the main headlines taken by the radical overhaul in pension's legislation. Back in 2006, 'pension simplification' was introduced and as the headline indicates it was introduced to reduce the number of pension regimes and make pensions simpler. However subsequent legislation made pensions even more complicated. More of this is further down in this newsletter.

We are now 6 years on from the financial crisis, and slowly it appears that some economies seem to be recovering, in particular the United States and the UK who are both showing signs of reasonable growth with encouraging GDP numbers, falling unemployment and manageable inflation. There is still much to do in Europe with a number of economies still struggling and France tipping into recession. There also seems to be a continual slowdown in growth from China although the recent reduction in interest rates has provided some respite. The surprise for many is Japan, the incumbent prime minister Shinzo Abe introduced looser monetary policy, government spending and reforms and has also started to tackle the mounting government debt. This has had positive effects on the stockmarket which has almost doubled in two years and it appears that Abenomics is working.

We must hope that government's and financial institutions learn from mistakes of the past unfortunately this has not always been the case.

Stock markets over the last six years have been very strong but over the last 18 months have largely remained flat. They look fully valued at present but there are lots of positives to continue to move markets forward over the medium to long term but we are likely to see some headwinds over the next 12 months. As we know markets can react irrationally to any news, even those that do not affect them.

This generally means that when markets fall, all stocks tend to fall, this is demonstrated by the fact that the FTSE100 index has dropped from peak to trough by 10% in each of the last five calendar years, recovering on each occasion by the year end. We experienced this recently from September into October.

A number of factors have affected markets at various times this year, geopolitics issues such as the Russian/Ukraine crisis, ISIS and Syria, protests in Hong Kong and the spread of the Ebola virus. There will no doubt be factors that will affect the markets at some time during 2015, perhaps the continual drop in the price of oil and the UK election. All of these things show us that we cannot time investments in the market, history tells us it is "time in the markets that counts".

Our focus is always on ensuring that we try and navigate our portfolios through the best and worst markets can throw at us, by blending together portfolios with lower than average risk, using good quality, experienced fund managers to look after our clients' funds. This will not a stop portfolio's from falling in value when everything else is falling. Our challenge is to try and minimise the downside risk. This has historically enabled us to provide a smoother return rather than a rollercoaster ride for our clients. As always we look towards the longer term knowing that we have to live with short term turbulence and flat periods of performance, in many cases patience is the key to long term returns.

Pensions Legislation

Next year will see the introduction of the most radical overhaul in pension's legislation for over 50 years. Much has been written in the press regarding the new proposals. This new legislation will allow far more flexibility for pension holders but as always the devil is in the detail. It is the government's intention to provide for general guidance via the Citizens Advice Bureau. Having read through the draft legislation and awaiting more detail from HM Treasury, this area is far more complicated than people think, nothing has been finalised but once we do have confirmation and the legislation has been passed we will send out a separate newsletter in the new year providing full details.

Wills and Inheritance

The biggest overhaul of laws governing what happens to someone's money, when they die without a will, came into force on 1 October 2014. The new laws still make no provision for "common law" partners who will still have no protection, if a will has not been left.

Intestacy rules

If someone dies without a will, there is a set of rules known as intestacy, that determine who is entitled to benefit from the estate. The rule changes won't affect people who die with less than £250,000 in assets.

Married/Civil Partner, no children: - The entire estate goes to spouse/civil partner.

Married/Civil partner, with children: - The first £250,000 of the estate plus half of the remaining estate goes to the spouse. The remainder estate goes to the children. If the children are under the age of 18, the inheritance will be held in trust and they become absolutely entitled to it at that age.

Married couple, with children: - The parents are treated as single people – with the estate going entirely to blood relatives, with children first in line

Common-law Partners and inheritance tax

Common-law partners still have very little rights and this also extends to having no inheritance tax protection. In this example we are assuming a will is in place. If a couple are married or in a civil partnership, the survivor inheriting the estate will have no inheritance tax liability. If we assume the deceased's estate was worth £500,000, this would pass tax-free to the survivor.

If the couple are unmarried, the first £325,000 would be tax-free and the residual £175,000 would be taxed at 40%, which is a tax bill of £70,000.

It is therefore imperative that unmarried couples make a will. Those in long term stable relationships with a reasonable level of assets should also consider the merits of marriage.

New State Pension

The new single tier state pension will replace the basic and additional pensions for people reaching state pension age from 6th April 2016.

Why the new flat-rate pension is being introduced

The existing system is complex, has high levels of means-testing and produces inequality - for example, in many cases, women tend to have lower State Pensions than men. The Government wants to address these issues and the aim is to introduce a simpler, fairer system where people have a clearer idea about what the state will provide, making it easier to plan their retirement savings.

From this date, you will require 35 years National Insurance contributions to potentially receive the maximum pension, which will be in the region of £148.40 per week. It should be noted that if you were contracted out of the State Earnings Related Pension either through membership of an occupational pension or via contracting out into a personal pension, then this amount will be lower.

To qualify for a state pension entitlement you will need to have at least 10 years contribution.

This will not affect any person in receipt of a state pension before that date.

Other changes

The state pension age will now be reviewed every five years.
The state pension age will increase to age 66 between April 2018 and April 2020.
The state pension age will increase from 66 to 67 between April 2026 and April 2028.

National Savings Fixed Rate Bonds

In the budget of 2014, the chancellor announced that National Savings would introduce a new savings bond for pensioners. This is a brief summary.

What are the Bonds?

- Lump sum investments providing capital growth
- Choice of terms – 1-year and 3-year
- Designed to be held for whole term, but can be cashed in early with a penalty equivalent to 90 days' interest

When do they go on sale?

- January 2015 – exact date to be announced
- Available for a limited period

Who can invest?

- Anyone aged 65 or over
- Invest by yourself or jointly with one other person aged 65 or over

How much can I invest?

- Minimum for each investment £500
- Maximum per person per Issue of each term £10,000

What about interest?

- Fixed rates, guaranteed for the whole term
- Interest added on each anniversary
- Highly competitive rates which will be announced nearer launch

The tax position

- Interest taxable and paid net (with basic rate tax taken off)
- Higher and additional rate taxpayers will need to declare their interest to HM Revenue & Customs (HMRC) and pay the extra tax due
- Non taxpayers, and those eligible to have any of their interest taxed at the new 0% rate (which starts from April 2015), can claim back the tax from HMRC

We would just like to wish you an enjoyable festive period and best wishes for the New Year.