Issue 6 Winter 2013/14

# Financial Viewpoint

# Chancellor delivers Autumn Statement

**Chancellor George Osborne delivered his Autumn Statement on 4 December. Here's a brief summary of some of the key points that may affect you directly.**

**Pensions**
There were no significant changes announced on the pensions front, but there are two important changes that will take effect from 6 April 2014:

- the Annual Allowance, which sets the maximum total tax-efficient contribution that can be invested into pension plans, will be cut by £10,000 to £40,000

- the Lifetime Allowance, which sets the maximum total tax-efficient value of pension benefits, will fall by £250,000 to £1.25m

The Chancellor also intends to increase the State Pension Age (SPA). This means people in their forties will receive state pension at 68, and people in their thirties at 69.

**Individual Savings Accounts (ISAs)**
For 2014/15, the investment limit will increase in line with inflation by £360, to £11,880, with the cash component rising to £5,940. The Junior ISA (JISA) will have its investment limit increased by £120 to £3,840.

**Inheritance Tax**
The Inheritance Tax (IHT) nil rate band, which has been frozen at £325,000 since April 2009, will remain unchanged until at least April 2018.

**Capital Gains Tax**
The Capital Gains Tax (CGT) annual exempt amount will rise by £100, to £11,000, in 2014/15. For 2015/16, the increase will also be £100.

**Income Tax**
In the March Budget, the Chancellor announced that the personal allowance would rise by £560 in 2014/15, to the coalition's original election year target of £10,000. Rumours that the Chancellor might review this during the Autumn Statement came to nothing.

**The housing market**
One change made that could slightly dampen the property market was the halving (from 36 months to 18 months) of the period of ownership disregarded for private residence CGT calculations from April 2014. This will mainly affect the tax planning strategies used by some people with second homes, and buy to let landlords.

**Business taxes**
The main rate of Corporation Tax is currently 23% and will fall to 21% from April 2014. For 2015, the Chancellor has promised a further 1% reduction, bringing the rate down to 20%, matching the unchanged small profits rate.

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

**If you would like to know about how these changes might affect you, please get in touch with us.**

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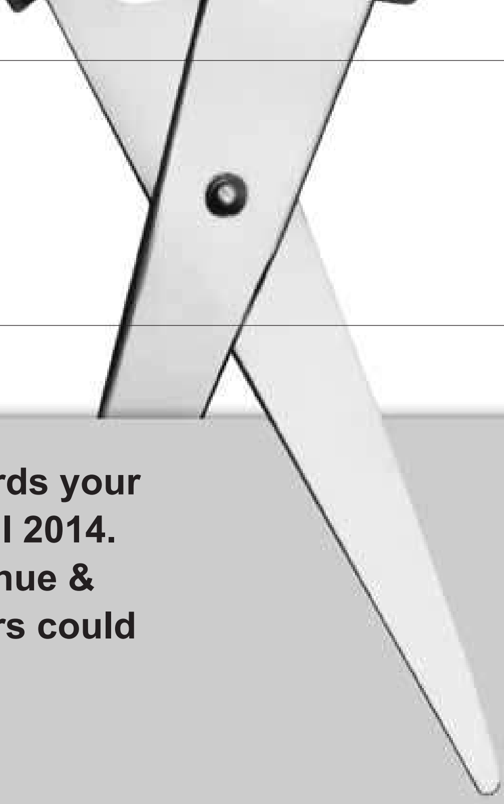
# Pension cap to hit 360,000 savers



**The maximum amount you can save tax-free towards your retirement will be cut from £1.5m to £1.25m in April 2014. That may still seem like a huge sum, but HM Revenue & Customs (HMRC) estimates 360,000 pension savers could be impacted by the change.**

### Lifetime Allowance cap to reduce

The maximum pensions savings you are allowed to build, before it becomes subject to taxation, currently stands at £1.5m. This cap is called the 'lifetime allowance' and applies to an individual's entire pension savings (apart from the state pension).

The figure may appear high, but many thousands of people fall into the category – especially those in final-salary schemes who have built their entitlement through many years' work.

When the lifetime allowance was first introduced, it only applied to a few thousand high earners in the UK who could afford to grow seven-figure pension pots. But the planned April reduction in the limit, to £1.25m, coupled with the increased costs of funding retirement promises for those who retire on final-salary-type pensions, means hundreds of thousands of people will now be affected.

### Protecting your £1.5m cap

Depending on your circumstances, there may be ways of avoiding paying this lifetime allowance charge of 55%. There are two main routes to retaining your £1.5m cap (2013/14): **fixed protection** and **individual protection**.

**Fixed protection** is the most common approach, effectively capping your lifetime allowance at £1.5m. The scheme, termed 'Fixed Protection 2014' by HMRC, is open to savers with pensions likely to breach the £1.25m cap (2014/15).

But you must act quickly. Your application for an extension to the limit, which can be made online via HMRC's website, or by post, must be made before the deadline of 6 April 2014.

You will benefit from fixed protection if you're approaching retirement and want to maximise the value of your pot, or if you've saved and expect the value of your pension to grow without making any new contributions.

Be aware that if you are enrolled in a defined-contribution pension scheme, you cannot add new benefits to your existing pot. If you are in a defined-benefits scheme, you can only build up benefits in line with inflation on an annual basis.

**Individual protection** offers another way to avoid the tax penalty. HMRC is currently fine-tuning the details and will announce final rules shortly. It is expected that individual protection will not restrict pension savers from making further contributions to their pension pots. However, any pension savings in excess of the £1.5m (2013/14) lifetime allowance will still incur the tax charge.

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

**If you are worried that your pension pot may be affected by this change, please get in touch with us.**

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# Prepare and protect this winter

## We have recently seen storms tear across the UK and forecasters predict we could be crippled by a 'record-breaking and historical' big freeze.

Homeowners are being warned that the impending cold snap is likely to cause hundreds of millions of pounds' worth of damage[1], and are being urged to take urgent action to protect their homes.

### Have you made the vital checks?

Home checks and improvements are rarely considered top priority (or particularly appealing) at this time of year. Add to the fact that many of us tell ourselves 'it won't happen to me', and you may be putting your home at unnecessary risk for the sake of a few chilly hours outdoors.

However, whilst claiming on your home insurance will help with the financial impact of correcting damage to your home, it cannot compensate for the inconvenience and stress caused. Spending an afternoon making sure you have your insurance details to hand, checking your property and making a plan to guard your home against bad weather can go a long way towards avoiding the misery that damage to your home can bring.

### Top winter tips

- Leave your central heating running at a constant temperature, not on a timer. If possible, leave it running in all rooms.
- If you know you're going to be away, either leave the heating on or drain your water and heating systems. Remember to leave your insurance details with a friend or neighbour. If you have a property that is unoccupied, drain the system.
- Check the lagging on your pipes and water tank, and pay a visit to the loft if you have one. If you have enough constant heating in the house, it will prevent the water tank from freezing. The most likely effect of the sub-zero temperatures in the home will be frozen pipes and water tanks.
- Check your home's level of flood risk at the Environment Agency website (www.environment-agency.gov.uk) by registering for its free flood warning service. If you believe your home is at risk of flooding, prepare by buying and installing flood products in advance.

[1] www.dailymail.co.uk/news/article-206588/UK-braced-Arctic-weather.html

**Please get in touch if you would like us to review your Home Insurance policy**


**If you haven't invested your full ISA allowance for 2013/14, time is running out.**

You can invest up to £11,520 into an Individual Savings Account (ISA) before midnight on 5 April 2014. The ISA allowance is expected to rise to £11,880 for the tax year 2014/15.

If you have not invested your full ISA allowance in this tax year, or are already thinking about next tax year, please speak to us. It is worth using as much of your ISA allowance as possible because returns are tax free.

You can invest the whole ISA allowance in a stocks and shares ISA or split it and put up to £5,760 in a cash ISA (2013/14). You can't roll any unused allowance over to the next tax year, so make sure you don't miss out.

**The tax year runs from 6 April to 5 April the following year, so you have until midnight on 5 April 2014 to use your 2013/14 ISA allowance.**

*The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances.*

# Getting the most from your pension

**If you're approaching retirement, you might be considering buying an annuity to provide a regular income in retirement.**

If you are, you should ensure you get the most from your pension fund by buying an annuity that reflects personal health and lifestyle circumstances.

## Use your one chance wisely

It's worth remembering that an annuity is a one-off purchase, so you only have one chance to get the best annuity income possible. The good news is that one in two individuals could qualify for something over and above a standard annuity rate, by way of an enhanced annuity[1].

## Could you benefit from a health check?

While 13% of over 65 year olds smoke[2], many are unaware that even this can have an impact on their annuity rate[3].

Meanwhile, a visit to your GP may uncover underlying health issues that could have a positive impact on your annuity income. According to the NHS, around 30% of people in England have high blood pressure but many don't know it[4]. Figures also suggest that diabetes impacts 2.9 million people, many of whom are unaware[5].

If you are similarly affected, the difference it could make when applying for an underwritten annuity could be substantial.

## The facts and figures

Here's an example of the extra value you might gain from an enhanced annuity:

- if you have a net fund of £50,000, you could be offered an annuity of £2,574 pa[6]
- this could secure you a standard rate income of £3,104 pa[7]
- if you qualify for an enhanced annuity, this could increase to £3,434 pa[8]

To achieve the same level of income from your existing plan might otherwise require a top up of £16,705.

## Next steps

We recommend you get in touch with us as you approach your retirement date.

The more detail you can provide us with for your annuity application, the better. Details like height, weight, blood pressure and diabetes readings can have a big impact. When it comes to the more serious health issues, specific information can make an even greater difference.

We can work with you to ensure you get your own, personalised annuity rate.

**If you need help with your retirement planning, please contact us.**

[1] Partnership/ABI data 2012
[2] NHS
[3] Partnership Research 2013
[4] NHS
[5] NHS
[6] AMS portal and Partnership September 2013. Based on 65 year old with £50,000 pension fund, who has had a heart attack. Actual enhancement will depend upon individual circumstances. Figures show worst and best[7] standard available income, and Partnership[8] enhanced annuity. Single life. Payable monthly in advance. No guarantee period. No escalation.

# Are your savings losing money?

**Inflation fell to 2.1% in November 2013, having stayed at 2.7% for much of the year. This means many people remain exposed to the effects of erosion on their savings.**

To match the impact of inflation, a basic rate taxpayer needs to find a savings rate paying 2.63%, while those paying higher rate tax need an interest nearer 3.5%. The bad news is that no single savings account delivers those required levels of return[1].

So what can you do about it?

### Investing in funds

If you find yourself in this situation, there are actions you can take to protect your savings.

If you are a cautious investor with a low capacity for loss, or a more adventurous investor prepared to ride out the highs and lows to seek longer term returns, there are investment funds available that are designed to accommodate you.

We offer access to a recommended range of investment funds from the leading fund managers in the industry, covering all types of attitude to risk. We can help you try and improve your investment returns, giving you a better chance of meeting your financial and lifetime goals.

**If you would like to discuss the investment options we can offer, please get in touch.**

### Designing your investment strategy

After establishing and agreeing your attitude to risk, we will work with you to create an appropriate investment strategy - one that aims to maximise returns while maintaining the right level of risk for you.

This approach will involve us not only recommending the most appropriate product or tax 'wrapper' (a specific type of investment with its own tax implications) from the range available to us, but also the most appropriate fund or funds.

### The bigger picture

Our recommendation will also take into account a number of other factors, including:

- your objectives for the investment
- the time frame over which you intend to hold the investment or pension
- the amount of money that you have available to invest
- other investments that you already have
- your personal circumstances *(eg. age, income, tax situation, etc.)*
- your ability to recover from financial loss

With so many investment options available, and the effects of erosion posing such an immediate risk to your savings, the hardest part is deciding which route to take. We'll follow a clear and thorough process to clarify exactly what you need from your investments and how much risk you're prepared to take. Our approach will help you get a solution that matches your needs – today and in the future.

*The value of investments and any income from them can fall as well as rise. You may not get back the amount you invested.*

[1] www.money.co.uk/savings-accounts.htm

# Will your policy pay out?

## Many people choose not to buy a protection policy, such as critical illness cover, because they believe it's unlikely to pay out.

But in reality, the proportion of protection claims paid by some insurers stands at around 93%. So why is there such a gap between perception and reality among consumers?

### Payout rate at over 93%

Around 20 years ago, an estimated 30% of protection claims were declined by insurers – a figure that perhaps informs many people's mistrust of the wider industry.

Since then, things have changed significantly, thanks largely to industry initiatives. Insurers, along with the Association of British Insurers, have worked to raise awareness of the risks of non-disclosure (failure to tell the insurer important information about your medical or family history), to ensure more claims can be paid out. They've also developed clearer questions and definitions on application forms.

The resulting improvement in payout rates is quite staggering. The total proportion of critical illness claims paid in the first half of 2013 by leading insurer Zurich was 93.8%. In 2012, insurer Legal & General paid out on 93.1% of claims – a figure equivalent to £209m.

### Common reasons for declined payouts

Of the 744 claims paid by Zurich in 2012, only a tiny proportion were not paid:

- 15 claims were declined because the client didn't inform the provider about important medical or health information when they took out the policy
- 66 claims were declined as the condition claimed for didn't meet the definition within the plan
- two claims were declined as the client tried to claim for conditions that were excluded from their plan

## What does a successful claim look like?

*No one likes to consider the possibility of being diagnosed with a critical illness, but sadly you never can be sure what the future holds. The examples below detail some of the claims paid by Zurich during 2012.*

### Examples of critical illness claims paid in 2012 – Male[1]

| Age | Occupation | Reason for claim | Claim | Time plan held before claim |
|---|---|---|---|---|
| 41 | Company Director | Cancer | £1,057,534 | 5 years |
| 52 | Managing Director | Cancer | £300,000 | 2 years |
| 40 | Electrician | Multiple Sclerosis | £127,600 | 2 years |
| 34 | Banking Manager | Stroke | £140,000 | 2 months |
| 59 | Financial Adviser | Coronary Artery Bypass Surgery | £45,365 | 23 years |
| 42 | Auditor | Benign Brain Tumour | £20,000 | 18 years |

### Examples of critical illness claims paid in 2012 – Female[1]

| Age | Occupation | Reason for claim | Claim | Time plan held before claim |
|---|---|---|---|---|
| 42 | Compliance Officer | Breast Cancer | £400,000 | 4 years |
| 56 | Hair Stylist | Cancer | £260,250 | 14 years |
| 39 | Book Shop Manager | Stroke | £93,500 | 4 years |
| 51 | Secretary | Multiple Sclerosis | £43,084 | 5 years |
| 47 | Administrator | Cancer | £49,621 | 7 months |
| 48 | Housewife | Heart Attack | £33,142 | 2 years |

This shows only too clearly how critical illness can strike at any time during someone's lifetime. With claims payout rates having improved so significantly in the past two decades, it makes sense to be protected for your own sake - and that of your loved ones.

**To discuss your protection needs, please get in touch.**

[1] Zurich Financial, Peace of mind when you need it most (August 2013)

# 'Help to Buy 2' launches early

**The second part of the government's Help to Buy scheme launched some three months ahead of schedule in October 2013.**

The scheme allows buyers with deposits as small as 5% to take out a mortgage, with the government guaranteeing any borrowing above 80% of the property value.

### Which lenders are involved?

The government guarantee makes higher 'loan to value' lending (ie. loans covering a higher proportion of the property value) more attractive to lenders. A number of lenders, including government-backed Lloyds Banking Group, Virgin Money, Royal Bank of Scotland and Aldermore, are already up and running with the scheme.

The signs are positive, with over 2,300 loans applied for within the scheme's first few weeks, and the first cases completed during November. Barclays, Woolwich and Santander have also come forward to say they will be taking part in Help to Buy 2. This should mean more competitive deals become available to borrowers in the coming weeks and months.

**Please get in touch for advice on your next property move.**

### Key details

The second phase of Help to Buy will help people:

- buy a newly-built or existing property with a deposit of only 5% of the purchase price
- who are existing homeowners or first time buyers
- purchase properties with a value of up to £600,000

### Is it the best deal out there?

A number of lenders have publicly stated they have no current plans to enter the market, including many of the UK's largest building societies. They view the costs being charged by the government for their guarantee as too high, and have chosen to continue funding their own lending as before.

Pleasingly, these lenders' decision to 'go it alone' is not preventing them from supporting borrowers. A number have already launched new, competitive deals at higher 'loan to value' rates, with some requiring only 5–10% deposits. This is particularly good news if you are a first time or next time buyer – but also great news if you're looking to move up the property ladder but have limited funds for a deposit.

### Finding the right deal

Regardless of your circumstances, if you're considering your next property move, be sure to shop around and take professional advice when selecting your mortgage deal. The varying approaches being taken by lenders around Help to Buy 2 mean that the right deal for you may actually be with a lender that isn't participating in the scheme.

For arranging a mortgage a fee of £395 is payable upon application.

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**

# There's more than one reason for making a Will

**If you've ever been through a Fact Find with your adviser, you may have wondered why you were asked if you had made a Will.**

Most people know that having a Will in place enables you to nominate who should receive items of monetary or sentimental value, such as jewellery, property or furniture, in the event of your death. It is also vital in helping you minimise the Inheritance Tax (IHT) payable by your estate.

But above all, a valid Will avoids the potential pitfalls of dying intestate which, in the case of partners who are not legally married or in a civil partnership, could be catastrophic. In such circumstances, the surviving partner has no automatic right to the other's inheritance.

## Couples with young children

Where couples have young children, a Will is the best way of clarifying who should look after them should the parents die.

If any of your children are mentally or physically disabled, it is essential that you make a Will. This enables you to appoint trustees to assist in administering the money and other assets left to the child or children, ensuring any means-tested benefits to which they are entitled are not jeopardised.

## Business owners

If you are self-employed, in business partnership with others or a major shareholder in a limited company, it is also worth considering how your business assets would be dealt with in the event of your death, without adversely impacting your family or the business itself.

Again, taking professional advice can not only minimise the taxes paid, but also ensure you make best use of all available allowances.

## Tax planning

It may not be possible to avoid paying tax altogether, but good planning can reduce – or at the very least defer – the payment of capital taxes, if structured with tax-efficiency in mind.

## Getting help

Any Will must be drawn up accurately, avoiding ambiguities, and executed correctly for it to be valid and effective. As such it is always worthwhile using experienced professionals to take your instructions and to draw up the Will itself.

A proper consultation with a Will writing expert will allow you to explore how to reflect your wishes in the most tax-efficient way.

**If you would like to find out more about how to arrange a Will, please contact us.**

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## Interest rates on hold – but for how long?

With the economy showing significant signs of recovery, some experts are predicting interest rates may rise much earlier than previously anticipated.

Bank of England governor Mark Carney has said that the Bank will not increase interest rates – which fell to an historic low of 0.5% in March 2009 – until unemployment falls to 7%. In December 2013 unemployment stood at 7.4% (based on August to October figures), down from 7.7% in the previous three-month period (May to July).

The Bank's most optimistic forecast of when it believes unemployment could fall to 7% is by the end of 2014, two years ahead of the 2016 prediction it gave just a few months ago.

This estimate, combined with the recent withdrawal of the Funding for Lending Scheme for residential mortgages, has prompted some financial experts to suggest rates could be raised during 2015.

**If your mortgage deal is coming to an end in the next 12 months, be sure to get in touch with us to discuss your options.**

For arranging a mortgage a fee of £395 is payable upon application.

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**

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COPEN749 Exp: 08/04/14