

Waveney Newsletter

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**WAVENEY
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LIMITED

*Independent Financial Advisors
Independent Mortgage Advisors*

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Boosting Income

Many individuals are rightly concerned with regard to the current economic situation, with the Bank of England interest rate at an historic low of 0.5%, inflation as measured by the retail prices index at 0.1% (consumer prices index is 3%) and over 2 million now out of work the picture looks somewhat bleak.

Press reporting has been unhelpful, with sensationalism being the key driver. It would appear that the press is only too willing to push the views of the most pessimistic so called experts and hedge fund managers, I may be wrong but could some of these individuals have a vested interest in talking the markets down? In any event we are in a situation where obtaining a reasonable income on capital is increasingly difficult for low risk investors.

There appears to be little press comment on the effects of "quantitative easing" on inflation. Quantitative easing is the process of increasing money supply in the economy without actually printing bank notes. The Government is spending £78 bn in repurchasing the Nations own debt which is issued in the form of GILTs. The funds to do this are created by effectively pressing a button within the Bank of England. This capital will end up in the accounts of those holding GILTs, in this case mainly banks who it is hoped will then have large levels of cash to increase their ability to lend - with the money eventually ending

up in the real economy. The purpose is to increase liquidity where the normal process of reducing interest rates has failed.

With the money supply increasing it is possible that inflation will become a problem in the next few years and this factor should not be discounted in future investment plans.

In view of the poor returns on cash in the bank it is important to consider other options, it should be remembered that investment is for the long term and with current valuations the downside risk is probably much reduced from say 18 months ago and in the longer term the current market valuations should present an opportunity.

For those who remain uncertain and do not wish to risk their capital other options are available. National Savings Certificates offer capital guarantees backed by the UK Government with fixed terms of 3 and 5 years on their Index Linked issues. These currently offer a return of 1% above the rate of inflation as measured by RPI - over a 5 year term these should look reasonable value unless deflation takes a real hold; returns are tax free.

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Client Update

Website

As part of our commitment to clients we have been reviewing our service proposition and are pleased to announce the forthcoming launch of our new website. This will be developed and improved over time with the intention of launching more tools for our clients to use.

Information on our service together with brochures and copies of past Newsletters will be available on the site which will go live in a few weeks; the intention is to increase the level of functionality over time to allow access to client valuations. Having listened to feedback from the returned client questionnaires we appreciate that this is an area which you would like to have more access.

We do appreciate feedback and if you would like to see additional options then do call us or email Christopher Hancock—chris@waveneymckenna.co.uk. The website address is www.waveneymckenna.co.uk and we hope that you will find this of use.

Seminar

We firmly believe that only by working with other professionals can we deliver a comprehensive financial planning proposition; as such we are pleased to announce that we have arranged a seminar with Invesco Perpetual, Cofunds and Hegarty Solicitors.

Invesco Perpetual will be providing a presentation covering the current economic situation, how problems occurred and a view on what lies ahead. Cofunds, who provide an administration platform from which you can access over 1,200 investment funds, will be discussing their online platform, functionality and opportunities whilst Greg Baker from Hegarty solicitors will deliver a talk on Inheritance Tax planning and wills.

The presentation will be held at the Holiday Inn, Thorpe Wood on the 14th May at 5.30 pm to start at 6.00pm. To attend please email neil@waveneymckenna.co.uk or return the enclosed reply slip.

Lasting Powers of Attorney

It is important for many people to consider giving someone the legal authority to manage their affairs in the event of personal incapacity. Lasting Powers of Attorney replaced Enduring Powers of Attorney in October 2007; Enduring Powers drawn up before this date can still be registered but no new Enduring Powers of Attorney can be drafted. Lasting Powers of Attorney are available in two parts:-

Personal Welfare LPA - these powers appoint attorneys to act on your behalf and make decisions for you relating to personal welfare, your instructions are outlined and can include your wish to refuse certain types of medical treatment in the event of you being unable to make decisions personally. You can also provide guidance to your attorney/s about whether you would prefer to

be looked after in your own home or be moved into care.

Property and Affairs LPA - this LPA appoints attorneys to act on your behalf in looking after your financial affairs. They would be able to then act in matters relating to paying bills, collecting any benefits, disposing of investments or even selling your home.

You can draft either one of the above or both, an LPA has to be registered with the Office of the Public Guardian for which a fee of £150 is charged per LPA being registered. For those on low incomes you can apply for a fee waiver or discount.

Should you not make an LPA and subsequently become incapacitated then family members will need to apply

to the Court of Protection who will then make a ruling about whether you are deemed unable to make your own decisions. If this is the case they will then appoint a deputy to look after your affairs and monitor the actions taken by the deputy on your behalf. The annual fees can be as high as £800 depending on the level of supervision required. In addition the deputy may not be the individual who you would have chosen.



Comparing ISAs and Pensions

With life expectancy increasing, financial planning becomes all the more important. If you're thinking of saving for retirement, then you might consider a pension is the best way to ensure you have enough to live on when you're older. However, there are alternative ways of achieving your goals, such as using Individual Savings Account (ISA) allowances.

One of the main differences between a pension and an ISA is in the way they are taxed. Your pension

payments will qualify for tax rebates up to your highest rate, while the income you take later on will be taxed. With an ISA, the money you contribute will have already been subject to tax, but then withdrawals you make are tax free. It's also useful to be aware that if you're over 65, your pension income counts towards your personal tax-free allowance, while your ISA withdrawals do not.

You might think, logically, that, thanks to the tax relief, a typical higher rate taxpayer saving a similar annual amount into both an ISA and a pension plan over their working life will find that by the time they reach retirement age the pension fund is larger. This is obviously fully dependent on their investment choices and tax regulations remaining consistent but it is important as it can influence the size of annuity that can be bought. However, that annuity income is likely to be taxable, unlike ISA withdrawals. But then withdrawing the same money from an ISA may eat into your capital quicker than

planned, which could mean you eventually have no funds left.

Other pension benefits include the fact that employers can pay into a company or stakeholder pension scheme, and the contribution limits for pensions are much higher than for ISAs. Nevertheless, an ISA is much more flexible. With a pension, you have to wait until you are aged 50 to make withdrawals (which is expected to rise to 55 by 2010), whereas an ISA can be accessed quite easily.

With longer life expectancies, as well as some high profile issues concerning the way in which a minority of pension funds have been managed, many investors' retirement sums are not quite as large as expected. As a result, some people are now looking to boost their pension funds by topping up their company pension, or by using additional investment vehicles. One solution could be to use both an ISA and a pension plan to ensure that your retirement income is as healthy as possible.



Money Saving Tips

In view of the downbeat economy and problems facing many we felt that some guidance on how to restructure finances and investments may be useful!

As well as looking to increase the income returns from capital it is also important to look at ways of reducing expenditure.

One immediate starting point is to look at household utility bills and then compare these against other utility providers. www.uswitch.com is an easy to use site which will do most of the work for you and provide an estimate of the annual saving.

You could also look at your existing savings and life cover arrangements. There are many ways to provide sufficient life cover whilst cutting costs, consider a family income benefit policy instead of level term insurance for example.

Ideally look to maintain long term pension savings; the current downturn does present good long term investment opportunities and now is an ideal time to keep investing on a regular basis, your money is buying more units or shares as values decline.

Review your council tax, single people are entitled to a 25% discount and in some cases you can contest the band in which your home is placed and reclaim any overpayment, be sure of your facts though as it is also possible to be upgraded and have to pay more!

Look at your savings, cash ISAs can be transferred to other ISA managers to improve returns

or you can move them to stocks and shares ISAs which can allow investment into high yielding securities, the values of which are depressed. Please note that the income can decrease as well as increase and that the value of your investment can rise as well as fall.

Review your risk profile but be careful; many people are looking to reduce the risk in their invested portfolios, whilst this should reduce volatility at the same time you are also reducing the growth potential and could effectively be crystallising losses.

Look at moving debt, whilst mortgage debt is difficult and expensive to move at the moment credit card debt should be reviewed, contact your existing provider and ask them to reduce the interest rate as you are looking to move, it worked for me.

Consider whether holding cash is the best option for you. Returns are subject to your highest marginal rate of tax and repaying credit card or mortgage debt can be a better option.



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UK Equity income funds also present opportunities for a relatively high yield compared to cash. Provided you are not overly concerned with regard to capital volatility then the yields are quite competitive, some funds are offering income returns of up to 7%. Whilst many companies will announce significant writedowns on assets and cut their dividends, even a reduction of 50% across the board would leave a competitive yield compared to cash with the opportunity for capital growth over time.

It is worth noting that recessions are often regarded as a good opportunity for companies to announce massive writedowns on assets; this is tax efficient and provides a clean balanced balance sheet going forward, often they will go for significant overkill there is a tendency to over compensate which can make matters look worse than may actually be the case.

Purchased Life annuities (where you receive a guaranteed income in exchange for capital) are also offering a good return, the capital is lost to your estate (bar any guarantees included at outset). You will effectively exchange capital for a guaranteed income for life. The income is paid tax efficiently and where income is the priority purchased life annuities are a useful tool in many portfolios. Again, compared to cash returns this is a good option to boost income.

Some providers also offer the ability to invest in real assets whilst guaranteeing a return of, for example, 5% on the capital invested for life, regardless of the performance of the underlying investment. This type of investment is a good halfway house between annuity purchase and direct investment—whilst the capital will be eroded if investment returns do not keep pace with withdrawals you still receive the income.

Annuities - Always Shop Around

When you retire, it can be tempting to succumb to the first fixed rate, level annuity quote you receive. However, with the average life expectancy now between 80 and 85, your annuity might have to pay out for more than 20 years - and inflation could really impact upon your spending power over that time.

It is therefore sensible to shop around - and there are various options to choose from if you want to make the most of your money. For example, there is an index-linked annuity, which is tied to the rate of inflation, and there is also an escalating annuity, which rises at a fixed rate each year, regardless of inflation (in other words, some years the rise may be greater, some years it may be less). For the more adventurous, you could even link your income to the ups and downs of investments (providing you are prepared to take the risk). All of these options are likely to offer a lower starting income than the equivalent level annuity, but over the long term, your ability to afford the same lifestyle could be better protected.

Of course, your circumstances may mean a mixture of annuities is appropriate. Or, depending on your appetite for risk, and size of your fund, you might even have the option to defer the annuity purchase. If you can leave that until later in life, or if you suffer from poor health, the potential for higher income from a level annuity may outweigh other criteria. Whatever you decide, make sure you shop around. You can't change your annuity once you've bought it, so pick the right one!



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Private Medical Insurance

Providing private medical insurance (PMI) is one of the many benefits many larger corporations offer to attract and retain staff; increasingly smaller companies are also recognising the important role this can play in attracting and retaining staff.

It is becoming an almost commonplace offering so many new employees now expect some level of private health care as part of their overall package. However, it can also be as useful for companies. Ensuring people have speedy access to medical care means they take less time off work when sick. According to figures from Laing & Buisson (based on 2003), over 4.6 million people were covered by company-funded PMI schemes.

Providing private health care is an allowable business expense for companies that pay corporation tax. However, directors and employees earning over £10,000 (including expenses) will have to pay tax and national insurance contributions on premiums paid on their behalf. Any payouts in respect of claims are, of course, tax-free. Medical check-ups and screening provided by an employer are tax free, as are eye care tests.

Most PMI providers will offer tiered schemes. The basic schemes will offer hospital care as an in-patient or out-patient for serious illness. Mid-tier policies will also offer diagnostic tests and medical treatment, while top-tier schemes will bring in perks such as free prescriptions, home nursing and dentistry. These schemes can usually be tailored for the number of employees in an organisation and adjusted for employees who work abroad.

Interesting Statistics

The following statistics are available at: www.statistics.gov.uk.

- Bank of England Base Rate 0.5%
- CPI 3% (target 2%) - the Bank of England models predict this falling back to target over the next 12 to 18 months.
- RPI 0.1% (old measure of inflation)
- RPIX 2.4% (excluding mortgage interest)
- Unemployment 6.5% (up 0.5% on the quarter and 1.3% over 1 year)
- National Average Earnings Index 3.4% (-0.6%)
- Producer Prices Index 3.1% (Output)
- Producer Prices Index 0.5% (Input—materials and fuel)

www.housepricecrash.co.uk provides the following information:

- The average house price,, according to the Halifax, has fallen 19.74% from a peak of £199,770. The majority of industry experts predict falling house prices with some now saying that prices will fall 50% from their peak, especially if a cap of 3 times income is imposed on lending.

THE CONTENTS OF THIS NEWSLETTER ARE FOR GUIDANCE ONLY AND REPRESENT OUR UNDERSTANDING OF CURRENT LEGISLATION. SPECIFIC AND PERSONAL ADVICE SHOULD BE OBTAINED BEFORE ANY ACTION IS TAKEN RELATING TO MATTERS COVERED IN THIS NEWSLETTER. IN PARTICULAR PLEASE NOTE THAT YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

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