



**WAVENEY
McKENNA**
LIMITED

*Independent Financial Advisers
Independent Mortgage Advisers*

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Waveney Newsletter

Client Update

Once again there has been a busy period of change both within the financial services industry and within Waveney McKenna.

Our last newsletter announced the appointment of David Vincent working from our Lowestoft office. David has settled in well and is helping with the smooth transfer of clients over the next few years as Mike Parrott approaches retirement.

Within Waveney we have an excellent team with Neil Munro, Chris Hancock, Kirsten Hackett, Sarah Mitchell and Lynne Penn having supported our advisers for several years.

The integration of the new software to improve the service we deliver has been going well, client data has been transferred and we are now in a position to catch up on client valuations which have in some cases been slightly delayed. We are now prioritising delayed client valuations and hope to have many of these issued over the next few weeks.



Going forward the new system will help with cash flow planning and we aim to provide access to client valuations over the internet.

New FSA requirements means that from 2012 many financial adviser firms will need to make significant changes to the way advice is delivered. This will make little difference to Waveney McKenna as we are committed to remaining independent and we already ensure that clients understand the advice process and our fees.

Waveney McKenna will continue to deliver a high quality personal financial planning service, you should ensure that an annual review is arranged where you feel that this is appropriate and do contact us on 01733 425818 for Peterborough or Lowestoft on 01502 538536.

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Market Comment

Equity markets finished the year positively helped by strong corporate earnings and improving investor sentiment. While concerns over EU debt have gone quiet recently they certainly haven't disappeared. Very little EU debt was due to be refinanced in December and January and those nations looking to get issues away found strong backing from the Chinese government.

The recovery remains fragile and whilst interest rates remain unchanged for now, concerns over increasing inflation persist as CPI recently came in at 4%. This is likely to continue to rise over the next few months as we continue to see the short-term impact of the increase in VAT, oil prices and commodities. The market is currently pricing in interest rate rises this year but it is yet to be seen whether this comes sooner or later than expected.

Interesting Statistics

Many will be concerned with regard to the increasing cost of living and it is difficult to see inflation reducing to the Government target of 2% for CPI for some time to come.

	June 2010	January 2010
RPI	5%	5.1%
CPI	3.2%	4%
NAEI (now AWE Index)	1.9%	1.2%
Producers Prices Index Input	10.5%	13.4%
Producers Prices Index Output	5.1%	4.8%

Pension Income Withdrawal Changes

Income Drawdown is not suitable for all individuals, advice is key in ensuring that the correct retirement option is selected at outset as it is often not possible to change your mind!



We always knew the Conservative party were opposed to the age 75 requirements relating to pension annuities but the speed of reform coupled with a lack of consultation has taken us all a little by surprise.

For some years one of the options open to us when we come to draw on our pension fund has been 'Income Withdrawal' also known as 'Income Drawdown'. Or, for the technically minded amongst you, Unsecured Pension (USP).

Aged 75 and beyond then this became known as an Alternatively Secured Pension (ASP).

From 6 April 2011 both USP and ASP will cease to exist and will instead be replaced with something to be called 'Drawdown Pension'.

The requirements of a Drawdown Pension will be:

- Available from age 55 with no upper age restriction
- A maximum income level that is lower than current rules
- Three year reviews up to age 75, annually thereafter
- Lump sum on death taxed at 55% regardless of age at death

A new concept is being introduced, called 'Flexible Drawdown' this will allow greater flexibility and access to funds as long as the individual meets a Minimum Income Requirement.

Any individual who is currently in ASP or USP automatically becomes entitled to adopt the new rules. However, for many it could be of benefit to remain under the current rules for as long as possible, for example if you are drawing the maximum income.

As always advice is needed in this complex area of retirement planning.

Individual Savings Accounts

Cash ISA rates move and change on a regular basis. Competitive rates offered a few years ago may be somewhat behind the pace today. By transferring you can continue to benefit from high rates whilst keeping your cash in a tax-free wrapper.

Transferring your cash ISA is not as straight forward as switching a normal savings account. The key point to remember is that you don't actually withdraw any money from your cash ISA. Doing this will lose you all the tax benefits. Instead you need to complete a transfer form supplied by your new provider and they will then organise the transfer request for you. Crucially this means your savings remain within the ISA

wrapper, maintaining the tax benefits you have saved for.

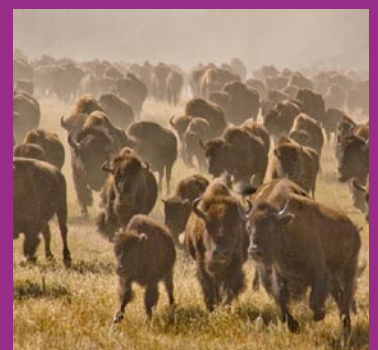
There are some rules to consider before you set things in motion:

- Not all transfer types are allowed: You can transfer a cash ISA to a shares ISA, but not the other way round
- Only past years ISA's can be split: Current years cash ISA must be transferred whole but previous years holdings can be split among many different providers.

Why would you transfer? To ensure you are receiving the most competitive rates available, transferring all your cash ISAs into one could give you a better rate. This is because providers regularly cut rates on earlier slices of cash. Or, perhaps you feel the time could be right to dip a toe back into the equity markets. The answer will depend on you and your circumstances and, as always, you should seek advice before acting.

ISA limits increase to £10,680 per person from April 2012, you may also wish to review your cash ISA options.

Our last Newsletter advised against panic selling in a falling market, since then markets have recovered slightly, however, the sentiment remains the same!



"Following the herd can be a recipe for disaster"

Retirement Options

Approaching retirement should be a time of much excitement as plans begin to fall into place for the 'longest holiday of a lifetime'. One critical decision that must be faced is how to invest your pension fund in such a way as to secure a desired standard of living whilst being mindful of any associated risks.

The broad choice for most generally focuses on purchasing a conventional annuity, or opting for an unsecured pension. The conventional annuity offers a secure and dependable income for the rest of your life but your income will be fixed every year and will remain level unless you're prepared to pay for increases. This option was very appealing when annuity rates were good value. However, rates have been falling steadily for many years and this annuity option has become less attractive for many retirees.

With rates falling many consider the alternative of an unsecured pension (also known as income drawdown or pension fund withdrawal). This option comes with a much higher element of risk as your pension fund remains fully invested and is managed by a fund manager. This degree of risk can threaten the security of your income but enables a degree of flexibility and control which appeals to many, particularly those with large funds.

There are other options for the retiree which can be easily overlooked without proper advice. For example With Profit annuities are offered by a handful of providers who have traditionally managed successful with profit funds for many years. Here, the future level of annuity is linked to the performance, good or bad, of a with profit investment fund and potentially will rise over the coming years. Whilst a with profit fund offers a route less risky than direct equities it also has the potential to go

down in the years that witness poor performance which could impact on the level of income received.

Another half way house between conventional annuities and income drawdown are Variable Annuities. These offer retirees the option to invest their retirement fund for short periods whilst still securing a guaranteed level of income. So whilst Variable annuities involve more risk they can potentially lead to higher income. This is done by the client effectively delaying the decision to 'annuitise' until beyond the normal retirement age of 65. This means you retain control which means you may be able to pass on the remainder of your fund to your beneficiaries should you die prematurely; you will be able to manage your retirement fund alongside changing circumstances, such as should your spouse pre decease you; deterioration of health can be taken advantage of through enhanced annuities in the future; and should lifetime annuity rates improve in the future you will not have locked in too early at a poorer rate.

All of the routes mentioned above have advantages and disadvantages, as do other retirement options that we don't have the space to include here. The key is to seek advice to ensure you take the correct route for you.



Investment Bonds

Shelter Higher Rate Liabilities

Investment Bonds are offered by insurance companies and allow you to invest in a wide variety of different funds and with different managers. They are normally designed to provide capital growth but can be useful for generating tax deferred regular withdrawals as well.

Each portfolio will typically hold a mix of Equities, Fixed Interest securities, corporate bonds and gilts, and commercial property. The units held within the Bond will normally rise and fall in line with the values of these investments.

This type of arrangement has advantages over others in certain situations:

- If you are a higher rate taxpayer seeking income from your investments. A bond allows you to withdraw up to 5% of your investment per year, for twenty years, without any immediate tax liability.
- If you are retired and wanting income, and in danger of affecting your age allowance. The 5% withdrawals are treated as return of capital and so will not be added to income for the purposes of calculating your allowance.
- If you are an active investor and have already used up your capital gains tax allowance. Switching between funds within a bond is not treated as encashment and therefore does not become liable to any capital gains tax.
- If you are wanting to protect capital from inheritance tax through the use of trusts. Many insurance companies provide packaged solutions to help mitigate potential inheritance tax.
- If you are likely to need long term care at some point in the future, investment bonds are treated as being life insurance policies and may be excluded when testing your means by the local authority in assessing your case for funding.

As ever, you should ensure you have used up your ISA allowance and that due consideration is given to other types of investment, such as unit trusts and OEICS. If you feel this type of arrangement could suit you, do contact your normal adviser who can talk through your options in more detail.

Changes to Workplace Pensions

It is clear that in the future there will be less of a role for the state in providing pensions for people in old age, which means a greater responsibility on the individual to make adequate provision.

The Department for Work and Pensions has confirmed acceptance of the proposals for pension reform which will be introduced in stages from October 2012 and will affect all employers and employees in the UK. The new rules give a more important role to employers in helping their staff to save for retirement.

It will soon be a legal requirement for employers to auto-enrol eligible employees into a Qualifying Workplace Pension (QWP) arrangement. Employers can choose whether to use a private pension arrangement or the National Employment Savings Trust (NEST), which is a basic national pension plan targeted at low to middle income employees who are typically not currently saving for their retirement.

Employees are eligible for auto-enrolment if they are aged between 22 and state pension age and have earnings of at least the personal allowance for income tax (£7,475 for 2011/12). There will be an optional waiting period of up to three months before an eligible employee needs to be automatically

enrolled. The auto-enrolment rules will apply to all employers regardless of size and the type of scheme chosen whether it be NEST or a private pension arrangement; those who do not comply may face considerable fines.

The minimum contributions payable under the new regime will be a total of 8% of an employee's pay between the band earnings of £5,715 and £38,315 (2010/11) of which the employer must pay a minimum of 3%. Whether they are paid to a private arrangement or to NEST, contributions will initially start at a lower level and then gradually increase to the full amount over a period of four years. Employers must certify that their scheme meets this minimum contribution requirement or they can use a simple self-certification test to ensure that QWP requirements are met.

A scheme will meet the requirements if there is a minimum contribution of:

- 9% of basic pay, with the employer contribution a minimum of 4%, or
- 8% of pensionable pay, with at least 3% from the employer (as long as pensionable pay is at least 85% of total pay across the workforce), or
- 7% of total pay, with at least 3% from the employer

Waveney McKenna can provide employers with advice and guidance both now and in the future. If you contact us now, we will discuss your company's requirements with you and:

- Inform you of your company's staging date - each employer has a staging date, which is when the company will need to adhere to the new rules, with the largest employers generally receiving the earlier dates.
- Outline the advantages and disadvantages of NEST compared with providing a private pension arrangement.
- Help you review your existing workplace pension scheme to make sure it will comply with, or exceed, the new requirements.
- Help you prepare for the additional cost of making contributions for employees who did not choose to join the existing scheme.
- If you have not got a scheme yet, we can help you put one in place.

These reforms are being introduced next year and Waveney McKenna can guide you through – do feel welcome to contact us on 01733 425818 or 01502 538536 for advice.

Tax Rates for 2011/2012

Personal Allowance	£7,475	0 - £35,000	20%
Personal Allowance income limit	£100,000	£35,000 - £150,000	40%
Age Related Allowance 65-74	£9,940 (reduces for income over £24,000)	£150,001 and over	50%
Age Related Allowance 75 plus	£10,090		



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