

Waveney McKenna



Newsletter Issue 11 February 2012

The David School

Many of you will know of Maureen's commitment to the David School. Several of us help in sponsoring the schooling of children attending this school in Sierra Leone. For £5 per month you can help and will be provided with the details of the child you sponsor. As all the helpers for the charity are volunteers, all of your funds go to directly helping children at the school. There are no UK costs involved in administration.

For more information visit www.thedavidschool.org.

For those who read this Newsletter you will be aware that we have spent considerable time and money on developing our reporting systems. The latest development will now offer access to an online valuation system.

By logging onto the new system you will be able to obtain the latest valuations relating to your holdings. We are committed to enhancing the service we provide to our clients and we are also looking to develop the regular reporting packs which will be the next development stage.

If you are interested in accessing valuations online then do let us know. There will be a small additional cost and a set up fee. The set up fee will be £75 with an annual fee of £40 paid 6 monthly in arrears. VAT is in addition.

Child Trust Funds and Junior ISAs

ISAs offer a tax efficient and cost effective method of saving. The administration is low as you do not need to declare income on your tax return and any income doesn't affect age related income tax allowances which can be

relevant for some. The allowance is increasing to £11,280 from April 2012 and accruing significant ISA funds can be a useful source of tax efficient additional income in retirement.

You can also save for children using either a Junior ISA or Child Trust Fund. You can contribute up to £3,600 into each of these accounts, however, Junior ISAs are only available to children born after the 2nd January 2011 who were not eligible for a Child Trust Fund.

As with an ISA, a Junior ISA or Child Trust Fund both offer tax free growth and there is no additional tax liability on dividends, fixed interest and cash income are tax free.

It is important to diversify across asset class (fixed interest holdings, equities and property to name the common assets) as well as tax wrappers. You should call

your usual adviser within Waveney McKenna Limited to discuss whether ISA funding is suitable.

Tax Changes

It seems that the Government is determined to end Child Benefit for all, there may be a slight amendment as the decision to stop the payment for all those earning above the higher rate threshold will affect some more than others.

Also don't forget that the income limit for tax credits is set to reduce which will also reduce the level of benefit paid to many. The budget for 2012 is on 21st March. It is entirely possible that higher rate relief on pensions will be reviewed (the Government did recently announce such a review) and tax free lump sums on pensions could also be restricted. This is pure conjecture, however, the Government needs your money!




Waveney McKenna Limited

69 Park Road, Peterborough PE1 2TN Telephone: 01733 425818 Email: info@waveneymckenna.co.uk

CLIENT SERVICE PROPOSITION

We will be publishing our client service proposition, this sets out clearly what we do, how we deliver this and what fees are payable. This important document will be accessible via our website shortly.

Sponsorship



From time to time we raise funds for various charities and local schools. Ian Burrows is undertaking a 102 mile sponsored bike ride in aid of School Funds. If anyone would like to provide sponsorship this would be welcome!

Retail Distribution Review (RDR)

After 25 years of regulation of the financial services world, our regulator the FSA decided that as long as commission was paid to advisers for the advice that they give there would be bias to their recommendations. Consequently in June 2006 they began a far reaching initiative that was designed to:

- Improve the clarity with which firms describe their services so that their customers know whether they are getting advice that is truly independent or whether it is restricted in some way;
- Address the potential for commission bias to distort consumer outcomes;
- Increase the professional standards of advisers.

A deadline of 31st December 2012 was put in place to have the new rules

in force to deliver these outcomes and here at Waveney McKenna, we are well placed to meet those new rules.

The letter that accompanies this newsletter sets out broad details of the area that will immediately affect you, which is how we will be remunerated in future for the advice that we give to you. For most of our clients little will change, apart from perhaps an increase in the number of pieces of paper that you need to see and sign. Sadly this is the negative aspect of many of the 'improvements' introduced by the regulator in recent times.

There will be more developments on this topic throughout 2012, and of course we will keep you up-to-date with them via future newsletters and correspondence.

Market Update

Notwithstanding the London Olympics and the Queen's Diamond Jubilee, 2012 is widely expected to be a tough year for the UK economy. The Ernst & Young Item Club (E&YIC) warned that the UK might already be back in recession. Although the prospect of a "serious double-dip" is not considered likely, E&YIC believes the UK economy is unlikely to achieve positive growth before 2013, warning: "The longer the uncertainty continues, the more debilitating the impact on the UK's economic prospects."

The Centre for Economics & Business Research (CEBR) believes the UK is already in recession and expects the UK's economy to shrink by 0.4% in 2012. However, if the Eurozone should break up, the CEBR believes the UK economy could contract by as much as 1.1% this year. Meanwhile, the British

Chambers of Commerce considers that recession is not a foregone conclusion, although the UK economy is likely to undergo a period of stagnation.

The Bank of England's (BoE) Monetary Policy Committee maintained UK interest rates at 0.5% for yet another month. The annualised rate of inflation eased from 4.8% in November to 4.2% in December, and the Consumer Prices Index experienced its most substantial annualised monthly drop since between November and December 2008. The rate of unemployment rose to 8.4% during the three months to November 2011, reaching its highest level since 1995.

According to a survey conducted by the Nationwide Building Society, consumer confidence is at "a low ebb". Concerns over rising unemployment and steep increases in the cost of living have been exacerbated by uncertainty

surrounding the outlook for the Eurozone's debt crisis. Elsewhere, against a backdrop of anaemic mortgage lending, the BoE warned that credit availability is likely to be dampened by the current economic uncertainty. Smaller companies' appetite for credit fell sharply during the fourth quarter of 2011, while default rates on loans to medium sized and large firms rose during the period.

UK companies are in relatively good shape with strong balance sheets and sizeable cash reserves; however, low confidence is leading to cuts in spending and recruitment. E&YIC warned that, contrary to earlier hopes, job losses in the public sector are not being offset by the private sector. Looking ahead, E&YIC urged UK companies to ensure they plan for different scenarios: "No-one really knows how the Eurozone crisis is going to play out."

Staff Benefits

You are always being told that your key asset is your staff, well we believe it to be true. Looking after your staff is important and the provision of a group life cover scheme can be very cost effective. Provided this is correctly explained to employees death in service is often seen as a welcome benefit.

We have been able to provide some relatively large settlements to employees of companies for who we have helped establish such arrangements. They are generally low cost, normally offer a tax free lump sum on death and are not taxable as a benefit in kind.

For higher earners we have also been able to arrange schemes so that the sum assured isn't assessed against the lifetime allowance on death. This can save up to 55% in tax on the level of death in service cover, when

combined with pension funds, over the lifetime allowance which is reducing to £1.5 million from April 2012.

Being able to provide an employee's family with a significant lump sum payment on their death is important, this will help retain employee loyalty and being able to demonstrate that an employee's family has been cared for as far as possible is also immensely satisfying.

Inheritance tax advice is important for higher earners who may wish to consider nominating a series of trusts, rather than a spouse, as the beneficiary of any funds on death. In this way

the spouse can still benefit but the funds do not form part of their estate for inheritance tax purposes.

Other employee benefits arrangements are available, however, if you do not currently offer any, then a death in service scheme is a very good starting point. We also offer advice on the following:-

1. Private Medical Insurance
2. Group Pensions
3. Group Income Protection
4. The use of pensions in business planning for business owners.

“Death in Service Schemes are often low cost and provide a much needed benefit to many employees”



Enhance your retirement

Many people do not take financial advice at retirement. Waveney McKenna's experience is that failure to do so often results in people taking the path of least resistance and accepting what are often not very competitive or inappropriate income terms offered by their existing provider.

A review of your options doesn't cost the earth but failure to do so can be expensive – as you could be locking yourself into a contract which cannot be amended. It is important to consider the following:-

- 1. Is an annuity the right contract? If so enhanced terms may be available which offer a bespoke income rate specific to medical conditions, such enhanced rates are also available for smokers.**
- 2. Rather than a lifetime annuity which cannot be amended, would a fixed term annuity with a guaranteed capital sum at the end be more appropriate? A fixed term annuity can then adapt to a changing marital status or future poor health.**
- 3. Would some form of index linking be appropriate?**
- 4. Can you afford to accept some investment risk in exchange for enhanced flexibility?**
- 5. Are death benefits an important consideration and if the objective is to pass some funds to the next generation is it worth looking to make regular gifts from income for inheritance tax purposes? This avoids the potential 55% tax on death and can avoid the normal 7 year rule applying to most gifts.**
- 6. What level of overall risk to future income is acceptable?**
- 7. Would releasing any tax free cash in instalments suit your tax position more effectively?**

Waveney McKenna Limited

69 Park Road, Peterborough PE1 2TN **Telephone:** 01733 425818 **Email:** info@waveneymckenna.co.uk

Family Protection



The most common life policy issued for family protection purposes is a level term insurance contract. This provides a sum assured which is level throughout a fixed contract term, for example 20 years.

We believe better options exist, a family income benefit policy pays an income on a monthly basis over a fixed term. The income is tax free and as the need for cover reduces over time, so does the remaining term of the income. The cover is therefore far more cost competitive and can be matched to meet the actual requirement, school fees or living costs within a given budget – often saving considerable monthly premium amounts over the more traditional approach.

Income protection policies can also

offer a more comprehensive solution to ensuring that you have the right protection in place. A replacement income is paid (normally tax free) after an initial period of incapacity. The longer this initial period then the lower cost the cover.

The income is paid if you are unable to work through illness or disability and continues until you return to work, die or reach the plan termination age – often 60 or 65.

There are a number of definitions of incapacity and we prefer those plans which pay the benefit if you are unable to perform your own occupation, however, this definition isn't always available.

If you would like further information then do call us on 01733 425818.

Trusts

We have written to many clients and recommended the use of trusts for existing policies, nearly all plans effected by us will be written under trust.

This ensures that the funds are paid to who you would wish, without having to wait for probate, administered by people you appoint and with potential tax savings.

It is essential to nominate beneficiaries who you wish to receive your pension funds in the event of your death. As alluded to earlier in this newsletter, the beneficiary does not need to be a person, for some it is more effective to nominate a trust.

Existing Pensions

If you are not intending on taking regular advice then we are happy to work with the level of service you actually require.

Many individuals have historic contracts with relatively high charges, we are able to reduce these in many cases and this can have a significant impact on your eventual returns.

Call us on 01733 425818 to discuss.

Speak to us first!

We are aware that the Banks are still selling high commission investment products to clients. Often these products are more expensive via the Bank or Building Society and we would ask that you query the remuneration payments or even better, seek advice from us!

Recent cases we have seen show significant charges with commissions over 6% and exit

penalties over 5 years. We are aware that structured products are useful as a part of a portfolio, however, having too much invested with one provider should be carefully considered as often the deposit compensation scheme does not apply.

If you are planning on taking advice via your Bank then we would ask that you call.

INTERESTING STATISTICS

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

Bank of England Base Rate	0.5%
CPI	4.2% (target 2%).
RPI	4.8% (old measure of inflation)
Unemployment	8.7%
Average Weekly Earnings Index	1.9%
Producer Prices Index	4.8 (Output)
Producer Prices Index	8.4% (Input – materials and fuel)
www.housepricecrash.co.uk	- Halifax Average House Price now £166,597



Waveney McKenna Limited

69 Park Road

Peterborough PE1 2TN

Telephone: 01733 425818

Email:

info@waveneymckenna.co.uk