Wise Words

the latest financial news from Aaron Tawny

Individual Saving Accounts (ISA's)

You may recall that, in our last Newsletter, we told you about the proposed increases in ISA (Individual Savings Account) allowances and subsequent tax savings. We can confirm that these increases now apply, which means that from 6th October 2009, any person aged over 50 can now save/invest up to £10,200 a year into an ISA, half of which (£5,100) can be saved via a Cash ISA. It follows that a couple can double-up to use an allowance amounting to £20,400!

Pension Changes Ahead

The Pensions Act 2008 states that employee enrolment and employer contributions are to be made compulsory. These provisions, due to come into force in 2012, cover the automatic enrolment of qualifying workers into a qualifying workplace pension scheme. Employers will have a duty to make contributions to such a scheme. To ensure that employers are able to comply with these duties, a universal pension account is being created.

The main details of the scheme are:-

- Automatic enrolment of eligible employees, aged between 22 years and state pension age, earning over £5,035 per year (unless the employees choose to opt-out, after enrolment).
- Employer contributions of 3% of band earnings, initially set as £5,035 - £33,540.
- Employee contributions of 4%, with an additional 1% funded by the Government, in the form of tax relief.
- Both employer and employee contributions will be phased in over three years.
- An enforcement regime, led by the Pensions Regulator, with powers to penalise employers who do not comply with the regime.

We will of course keep you informed on the changes ahead, however, if you require more details, or for greater clarification, please give us a call at Aaron Tawny.

Government Cash Breaks

It's not often the Government gives anything away, but currently the temporary abolition of Stamp Duty on properties up to the value of £175,000, still applies.

However, this is scheduled to revert to £125,000 from 1st January 2010. If you are presently pondering this situation, the January deadline might help make a decision.

Mortgages - Income Requirements

Recently we have received a number of enquiries as to what type of income can be used when affordability of a mortgage is considered. We show below different types of income that some lenders are prepared to take into consideration:-

- Carers Allowance - paid to people aged 16 and over, spending at least 35 hours a week caring for someone who is ill, or disabled.
- Disability Living Allowance
- Shift Allowance
- Working and Child Tax Credits
- Child Benefits
- Foster Carer's Allowance
- Investment Income
- Additional Rental Income
- Incapacity Benefit
- Pension Income

Taking account of some of the above has helped a few clients purchase new homes.

Pension Choices at Retirement

You may have saved diligently over the years and if so, when you reach retirement age, you will have some important decisions to make and the first decision is "when will you actually retire". Since the minimum retirement age increases from 50 to 55 in April 2010, this needs some considerable thought.

In addition, the statutory age (i.e. the age when you become entitled to State benefits) is also increasing for women, from 60 to 65, by 2020, in order to equalise them with men.

If you choose to "downsize" your career (e.g. go part-time), but you can still earn some income after your chosen retirement date, you may be able to "phase" your retirement, using a portion of your pension fund to start with, leaving the remainder invested until a little later.

However, the most important choice you will need to make is which of the several options you opt for, i.e. an Annuity, or Unsecured Pension product (also known as Income Drawdown), since this will determine your ultimate income.

The first important decision to make is "when will you actually retire".

All have the option of taking a 25% tax-free lump sum, to spend as you wish, or perhaps invest to generate additional income.

With an Unsecured Pension product (Income Drawdown) arrangement, you retain the entitlement to the capital and draw an income directly from the plan value each year. This is likely to be less than you might receive from an Annuity, but it does mean you preserve some of your pension fund (at least until you reach 75 years). These schemes do, however, leave your investment in the hands of the market, so you risk the value going down as well as up.

They are now quite flexible and offer access to a wide range of funds, so you can decide what level of risk, if any, is worth taking and allocate your money accordingly.

An Annuity, however, will provide you with an income stream for life, but you could give up the right to any capital, with your dependant inheriting nothing, should you die shortly after you start taking your pension. However, if you purchase an Annuity, which includes a guarantee period, then if you die before the end of the guarantee period, your dependents could inherit the residual amount that would have been paid for the remaining period of the guarantee. You will need to think very carefully about the choices/options available and Aaron Tawny will be pleased to provide in depth advice, which should enable you to make an informed decision, which is most suitable for you.

Finally, there is an option to take part of your pension fund, giving a basic income stream and then invest the remainder of your capital. Such a combination could offer a decent "half-way house" for some people.

We can, as mentioned, guide you through the whole process and make sure you fully understand every option, before you make a decision.

Lifestyle Pensions

Still on the topic of pensions, many people are unaware that their lifestyle might entitle them to increased pension payments. Below are a few examples of people eligible for such increases:-

- Lady aged 60, with a pension fund of £30,000, who is overweight and consequently suffers from high blood pressure and takes regular medication to control her symptoms, found that she could get her pension increased by 28%.
- Man aged 65, with a pension fund of £30,000, who recently retired from a physically demanding job, was surprised to discover he could qualify for an annuity enhanced by 20% based upon his previous occupation and place of residence.
- Man aged 60, with a pension fund of £30,000 has enjoyed regular drinks with friend and colleagues after work. When approaching retirement, disclosed his weekly alcohol consumption and found his potential retirement income could qualify for an annuity enhanced by 21%, based upon his lifestyle factors

An increased pension can often be arranged, especially if you smoke, or have certain health conditions.

Investment - The Bounce Back!

The FTSE100 Index has rebounded from the six year depths it plummeted only a matter of months ago. The blue-chip index finally breached the psychologically important 5,000 barrier in September, reaching its highest level for almost a year. Stockmarkets in America and Europe have also posted impressive gains. The FTSE100 Index has rallied by more than 40%, since its March lows, although it remains considerably below the levels reached before the demise of Lehman Brothers. However, there is some concern that the Market's rally has surpassed realistic prospects for corporate earnings. According to Bloomberg, the FTSE100 Index is now at its most expensive level for seven years.

The burgeoning economic recovery in the U.K and the strengthening economic data from France, Germany and the U.S., have provided investors with some much-needed encouragement. Meanwhile, signs of reviving demand for commodities from China, have boosted shares in mining and natural resources firms. Corporate earnings from many companies have provided positive surprises, although it is worth remembering that some of these gains were achieved by cost cutting and downgrading forecasts, rather than through increased demand, or higher turnover.

The path ahead is unlikely to be trouble free and prospects for the U.K. Stock Market and economy remain far from clear. The Organisation for Economic Co-operation & Development (OECD) recently downgraded its forecast for the U.K. economy for the third quarter and does not expect the U.K. to return to growth until early next year. On the other hand, the National Institute for Economic & Social Research believes that the U.K. economy staged a return to growth during the three months, to the end of August.

Looking ahead, if the economic backdrop does continue to improve, this is likely to provide further impetus for corporate earnings. However, if the early signs of economic revival begin to wane, then sentiment is likely to change rapidly from tentatively positive, to negative. In particular, unemployment and consumer spending could provide obstacles to recovery. Meanwhile, there is the worry that, once the Government withdraws its economic stimulus measures, the U.K. economy will find it hard to maintain the apparent upward trajectory.

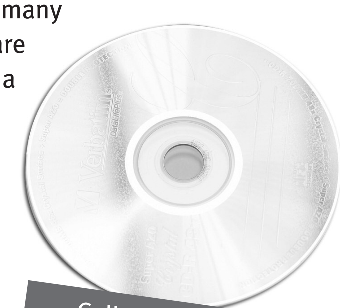
Investors are willing to dip their toes back into the choppy waters of equity investment.

On balance, however, the recent share-price rally is encouraging, not least because it demonstrates that investors are willing to dip their toes back into the choppy waters of equity investment. However, keep a watchful eye out for any further bad news, as this could undermine that fragile investor sentiment, leading to fresh sell-offs. Only time will tell.

Markets will remain volatile for sometime to come, with ups and downs commonplace. Whilst this might be bad news for some, it is very good news for many of our clients who have taken our advice to maintain their regular investment contributions and so obtain the considerable benefits of "Pound Cost Averaging".   This means they take advantage of buying when prices fall. Anyone wishing to get more details of the concept of "Pound Cost Averaging", should call the office.

For the Entrepreneur

Many people, including some who may have been recently made redundant, are considering setting-up their own business. There can be many pitfalls in such a move, but now we are able to offer, thanks to the NatWest, a C.D. called "Building a Successful Business". This brings many things to light, such as how to construct a business plan and cash-flow budgeting, two essential ingredients in preparing an acceptable proposal.



Call us for the free Building a Successful Business CD

Should you wish to discuss this, or would like a copy of the C.D, please call us.

Equity Release

Many people consider Equity Release to be a stand-alone retirement solution. However, contrary to such beliefs, Equity Release can also be utilised as a viable financial planning tool, for homeowners aged 55+.

For example, someone may be considering moving to part-time employment, but is concerned about maintaining their present lifestyle. This might especially apply to those about to be made redundant.

Equity Release could be used to help supplement income and give freedom to spend more time doing the things you enjoy.

Similarly, Equity Release could provide a cash lump sum to tide you over until pension age. We recently heard of a case whereby a person, who had been made redundant, released equity from their property and used the money to start-up their own business.

Equity Release is not for everyone, but it is an option that could be considered by anyone over the age of 55.

Equity Release could affect your entitlement to some state benefits and may affect your tax position. All Equity Release plans will reduce the value of your estate.

Equity Release may involve a lifetime mortgage or home reversion plan, to understand the features and risks ask for a personalised illustration. A minimum administration fee of £350 will be charged when applying for either of these schemes.

We have leaflets available, directed at the over 55's, entitled "Open the door to a brighter future". Give us a call if you would like one sent to you.

Your financial needs: How we can help

All of our advisers are trained to offer unbiased, jargon-free advice on any of these areas:

- Business Protection
- Commercial Mortgages
- Equity Release
- Inheritance Planning
- Investments
- Life Assurance
- Mortgages
- Pensions

Simply call us on 01536 512724 or email us your enquiry at: enquiries@atawny.co.uk

Protect your Business/Share

We are able to advise on and arrange Shareholder/Partner protection, which enables Directors, or Business Partners to retain control and ownership of a firm, should one of the Shareholders/Partners suffer a premature death or critical illness.

Such arrangements can be rather involved, requiring lengthy discussions with all parties concerned. We would, however, strongly advise any partnership, or company, which might not have this type of cover in place, to contact us to discuss the possibility of effecting a protection arrangement of this nature.

It's better to be safe than sorry - too often we hear those two dreadful words - "If only".

Interesting Tit-Bit

During a recent meeting with one of our clients, who is aged 73 and disabled, he said that he had just purchased a new car. He found that, because of his disability, the purchase was exempt for VAT purposes. Not only did this save him 15% on the purchase price, but he also found that all future servicing costs will also be VAT exempt.

We understand that such exemption is not solely restricted to the purchase of a vehicle. We don't know to what extent such disability is relevant, but thought the article might be of interest as some of our clients may know someone who could benefit by being aware these schemes are available.

We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate to hear your feedback, whether good or bad.

6 Market Place
Kettering
Northants
NN16 0AL

T: 01536 512724
F: 01536 312232
E: enquiries@atawny.co.uk

Aaron Tawny