

moneywatch

Education fees

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Plan ahead for rising school and university fees

The costs of education have increased dramatically.

Planning for these costs may have parallels with more traditional financial planning but with shorter term goals than, for example, retirement.

The costs are high. The Independent Schools Council told the Daily Telegraph earlier this year that annual fees were averaging £13,179 – a significant sum.

Broadly there are three approaches to take. First you may set aside capital and aim to maximise that sum with tailored investments and tax planning. You may start to make regular investments into an appropriate plan. You may consider a loan or a mortgage.

For grandparents, setting up a trust scheme may represent an efficient way to help with grandchildren's education particularly when done alongside inheritance tax planning. Finally another important aspect is to insure your income against illnesses so that your children's fees can be met even if you fall ill and cannot work.

You may wish to take a similar

approach to university fees. Although the arguments continue, and there may even be a few signs of price competition, some universities may charge as much as £9,000 a year in tuition fees. A recent survey by the Association of Investment Companies found that just under

“ A recent survey found that just under half of students expect to graduate with £20,000 of debt ”

half of students expect to graduate with £20,000 of debt, while 88 per cent of families said the economic situation made it more difficult to help their children with university costs.

Saving and investing for this eventuality can therefore help. Besides lump sum and regular investments, insuring your income, and receiving help from other relatives, parents may also take advantage of the Junior Isa (page 6).

It may be best to incorporate your planning for these costs into your overall planning. Please get in touch for more information or if you are worried about these issues.



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Nest eggs and other pensions

Pension reform aims to get everybody saving for retirement

The Government is launching a major pension reform from next year, which is designed to dramatically increase the number of people making provision for their retirement.

The reform comes into force for large employers i.e. those with more than 120,000 employees, in October next year, and then is extended month by month (excluding December) until all employers are covered in the next four years (see Table 1).

Dates for the launch of auto-enrolment are determined by the number of employees in a company.

The dates are phased in month by month, starting with the large employers first. We have grouped together ranges of launch dates. For example, in the first category, the auto-enrolment launch date will be closer to 1 October 2012 for an employer with 30,000 staff and closer to 1 March 2013 if staff numbers are just over 10,000. After 1 March 2014, for employers below 50 employees,



launch dates are determined by that employer's PAYE reference number.

Almost all employees, known as eligible workers, will have to be offered access to a pension complete with employer contributions.

Eligible workers will be those aged between 22 and state pension age and earning above the personal allowance of £7,475 in 2011/12. Contributions will be calculated on earnings between £5,035 and £33,540.

Employees earning above this salary level will have to decide actively not to join the pension, a process

known auto-enrolment, i.e. one that relies on opting out, not on opting in, which theoretically maximises the numbers saving. Those below that salary level can also choose to opt in. If employees decide to stay opted in, their employer must pay a minimum salary contribution ultimately of 3 per cent (by 2017), the employee will be expected to contribute 4 per cent, and the Government will contribute tax relief of 1 per cent. Once again this is introduced gradually as Table 2 shows.

Employers could offer more or even shoulder their employees'

contributions, though this is, of course, voluntary on their part.

An employer pension can either be a scheme set up by that employer say, for example, in cooperation with a private pension company, or if that scheme does not meet certain minimum criteria, it must offer access to the National Employment Savings Trust (Nest), a scheme created by the Government.

Employers

First if you are an employer, you would be advised to seek advice about the sort of scheme you wish to offer, whether your existing scheme complies with the Government's minimum or whether you may wish to offer access to Nest. Failure to comply can result in fines or ultimately prosecution from The Pension Regulator. You may wish to consider how to control costs, but also whether you wish to offer more than the minimum, for example, if you regard the pension you offer as an incentive for staff to join or remain with your company or whether you wish to simply comply with the Government minimum. You may also wish to consider the arrangements you have for senior managers and how this fits with the auto-enrolment

reform. We suggest you contact your adviser to consider these issues.

Employees

If you are an individual, there will be many factors to consider. Some employers may offer the minimum across their workforce, and the pension you receive may become less generous than your existing one. If you have never received a company pension, you will be offered access to one or to Nest. You may wish to consider whether you wish to opt out, though generally with employer contributions on offer, it is wise to take them. You may be uncertain about the sort of investments you wish to invest in, given that you are likely to be offered a choice. The default funds, for example, will tend to be quite conservative. You may have an existing personal pension plan and face a choice over whether to maintain these contributions along with your employer's pension and there may be some tax and planning implications. You should also consider how any pension fits with other pension and non-pension investments and if they will allow you to achieve your goals. If you have any worries please get in touch, we would be happy to help.

The Right Strategy for these markets

With the FTSE 100 experiencing big swings from above 6,000 to well below 5,000 in 2011, it is understandable that investors are worried. There are, however, a couple of things to remember. First, you are unlikely to be solely invested in FTSE 100 companies. The index is simply an indication of the value and prospects of biggest 100 companies which have a listing in London.

Second, very few people can consistently predict the day to day changes in the market, though many try. There are, however, things you can control. If you are investing for the long term, arguably the most important of these is your strategic asset allocation.

In the first place, the strategic asset allocation helps with the initial construction of a portfolio. This will help decide the range of assets and the amount invested in a particular asset class, possibly with maximum and minimum amounts in a particular asset, depending on an investor's attitude to risk.

Equities may be divided into smaller classes, for example, by region such as the UK, US, and Europe and emerging markets, by size of company, perhaps divided into small and mid cap stocks, i.e. small and medium sized-firms, and large cap stocks. It may also divide stocks into growth stocks with a potential to grow at above an average rate, and value stocks where the share price may be below what other fundamentals

Table 1

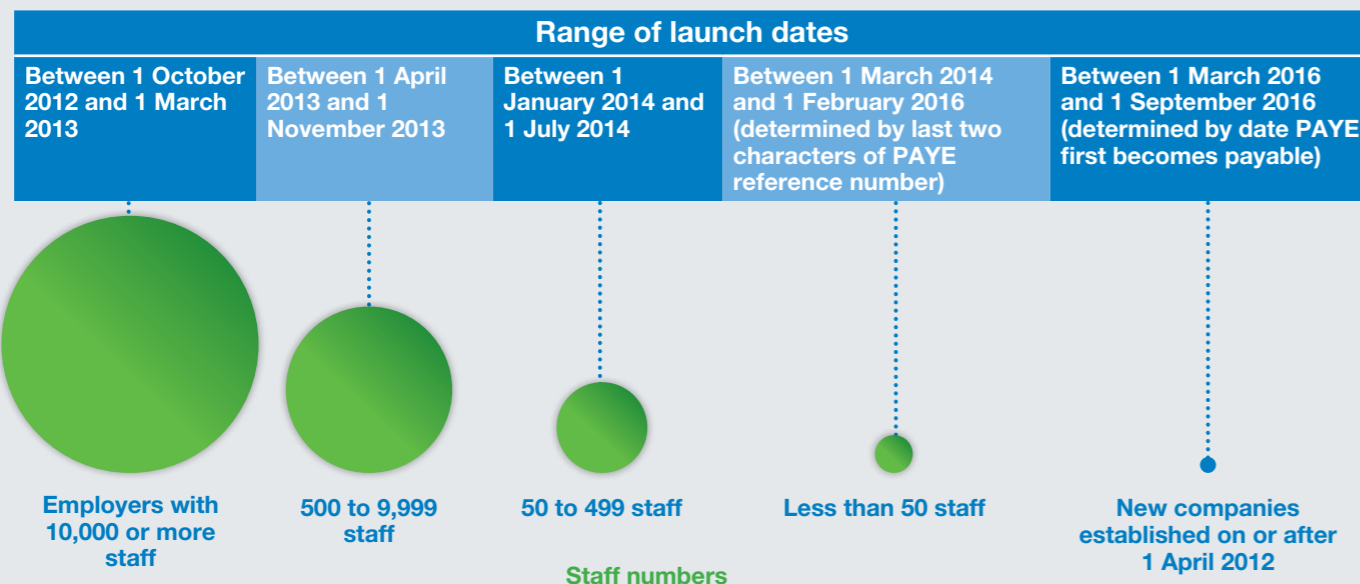
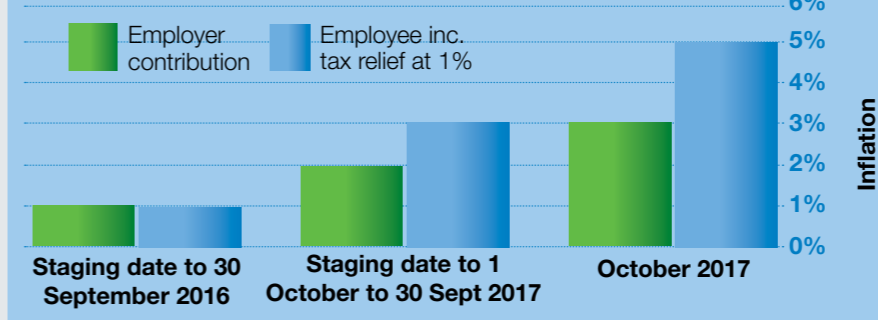


Table 2



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The Right Strategy for these markets

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about the company suggest it should be. The proportion of growth stocks versus value stocks in a portfolio may shift over the economic cycle.

You may have some government and corporate bonds, some property exposure, maybe commodities and some cash. Generally investors access these assets through a model portfolio which recommends a range of funds or perhaps through a multi-asset fund.

“Very few people can consistently predict the day to day changes in the market, though many try”

With strategic asset allocation, the percentages invested in each asset class are adjusted over time depending on economic circumstances, based usually on a five or ten year view. Certain boundaries may be set depending on your own attitude to risk and portfolios are adjusted annually or more often. For example, if you are a lower risk investor you may have a ceiling on the amount of equities and a floor on the percentage of bonds or cash in your portfolio. This means that if one type of asset is doing badly it is likely another is doing better.

This is why many investment professionals suggest that by employing a strategic asset allocation, you are effectively making time your ally. It doesn't mean your portfolio will always be up, but over time, most short term shocks should even out. If you wish to know more about strategic asset allocation and how it applies to your portfolio, please contact us to discuss in greater detail.

The case for using an IFA – retirement and so much more

Seek the advice of an expert in planning your financial future

We wish that more people used the services of an IFA, because we are convinced that the people who do are not just wealthier, but in the process, better able to cope with many of the challenges that life can throw at them. The big strength of independent financial advice is that it allows you to consider all your financial needs in a holistic way. Arguably, one of the biggest priorities is your retirement planning. There is a host of ways in which you can save in a pension and in other savings vehicles, and of course, different people have different ambitions. An IFA can help you tailor a solution to your needs and help you determine what you need to save and invest to make sure your retirement is a comfortable one.

“The big strength of independent financial advice is that it allows you to consider all of your financial needs in a holistic way”

An IFA can also help you understand the process better. Your working years are when you save and invest. When you retire, you turn those investments into an income, but increasingly, there is no sharp cut off point and the transition between your working life and your retirement is a gradual one. But, it is not just your retirement planning which an IFA can help you with. We can also help make sure you have insured yourself against ill health or other risks to your income. You might even do the same with regard

to your business with business protection.

You may wish to make use of other savings vehicles. Isas are a very useful and simple means of doing so, and now the Government has introduced the junior Isa so you can invest for your children as well, which we talk about in more detail elsewhere in this newsletter.

If one of your big concerns is protecting your financial legacy for your loved ones, we can also help minimise the impact of inheritance tax and there are a number of strategies to consider.

In essence, an adviser can work with you to help you understand your own personal circumstances, better consider your attitudes to risk, identify your goals, and plan ahead to achieve them.

He or she can also help you adapt

those plans when circumstances change or when you need money for something unexpected. By using an IFA, we think you can stop worrying about the financial aspects of your life and get on with the rest of it.

Retirement options

There are a host of issues you need to consider when planning your retirement or even when you plan to wind down your working life gradually and phase your retirement. We would recommend you to start considering your



options some years beforehand in order to find the best ways to secure your retirement goals.

You may, for example, wish to take a lump sum from your pension, which you can do typically from the age of 55 with no upper age limit, though this will reduce any subsequent income.

For those who saved a small or medium sized sum in a defined contribution pension and have few other sources of investments or income, you may need to buy an annuity at the date of your retirement to replace your salary. If you are not reliant on this income, you may decide to purchase an annuity at a later date.

It is very important to shop around when buying an annuity to get the best deal. Many people take the annuity offered by the provider they have saved with, but we would urge you to consider this against other options in the market. You need to consider issues such as whether you want to proof an annuity against inflation, whether you want a joint annuity with your spouse and whether you might qualify for an

enhanced annuity because of ill-health.

If you have a larger pot of private pension saving, or other sources of income, from a big company defined benefit scheme or a pension from the armed services or period in the public sector, it could increase your options. You may wish to consider income drawdown - of which there are now two types following a government decision to abolish compulsory annuitisation at age 75. Drawdown effectively allows you to keep a proportion of your money invested while deriving an income from it. However the government still places some restraints on it, to make sure you don't run out of money and fall back on the State.

There are two types of drawdown, known as capped and flexible drawdown. The former allows you to take an income equivalent to 100 per cent of the Government Actuary's Department estimate of what an equivalent single life annuity would pay that year to someone your age and gender, a figure known as

maximum GAD. Capped drawdown has to be reviewed every three years and each year after 75.

With flexible drawdown, you are free to draw as much as you wish from a pension providing you can demonstrate an income from other sources of £20,000 a year. These sources can include a combination of the state pension, a scheme pension and/or an annuity. For both types of drawdown, there are a host of strategies you may choose. Some may aim to maximise your income, others to maximise any inheritance. All drawdown for example, is taxed at 55 per cent on death benefits. Drawdown can involve a number of investment strategies including using asset backed or fixed term annuity products, perhaps for part of a pension pot while leaving the rest fully invested. But all of this needs considered carefully in term of planning in the context of all your financial arrangements, whether you have investments and other sources of income, your health and circumstances. If you are concerned about your retirement plans, please seek advice.

Points to remember

- The expertise of an IFA will allow you to consider all your options
- Start planning for retirement well before your working life winds down
- An IFA can help you pick your way through the issues retirement planning raises, and ensure your financial security

Uncertain times continue in financial markets

We remain in a difficult political, economic and investment climate. The Eurozone remains the centre of these problems as it has done all year. The jury is still out on whether the EU will solve its political and economic problems for the long term and every bit of good news seems to be followed by bad news. Equity and bond markets are both very nervous. Every new initiative, whether at European or national level seems to be greeted by a stock market rally, followed by a falling back, as markets and investors consider the details and credibility of any new plans.

The crisis is also bringing political change with the curtain falling on the career of Greek Prime Minister George Papandreu, and Italy's leader, Silvio Berlusconi, and with Germany and to a lesser extent France, calling the shots and the UK urging more integration and coordination in the Eurozone from the sidelines.

There remain concerns about how much Britain will have to contribute



to the International Monetary Fund, ultimately underwriting more European bailouts, and concerns also remain about contagion to Europe and the world's financial sector.

However, it wasn't all bad news. British banks had a lower exposure to Greece. The UK economy grew at 0.5 per cent in the third quarter of 2011. Stock markets, while still very volatile, stood at 5,567.34 at its close on Tuesday November 8, a big improvement from a few weeks earlier.

One think tank, the Centre for Economics and Business Research, even suggested that, in the medium term at least, the United Kingdom economy would be better off if the

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Euro split, though many commentators disagree. There were some hopes that globally at least, the US was witnessing a recovery, albeit a weak one. Some also believed that China was managing its own inflation and would see a soft landing without a big fall off in growth, though the country seemed very reluctant to contribute to any Euro bailout without firm agreement and detailed plans on what was to be done.

However, one of the biggest problems remains the interest rate and consequent inflation picture in the UK and some commentators suggest that this could get worse before it gets better because of the decision at the start of October by

the Bank of England to undertake a new round of quantitative easing – roughly equivalent to printing money - which will add another £75bn to the programme in coming months. The move came because the bank feared the UK could fall back into a recession particularly if the Eurozone crisis continues or indeed deepens.

However this means that inflation remains very high with very little sign of a policy response from the Bank of England. The Consumer Price Index was 5.2 per cent in September while the retail price index, which includes more measures of housing costs, was 5.6 per cent. However the policy response was to keep rates low at 0.5 per cent and even the European Central Bank has cut its rate 0.25 per cent given the continent's economic woes.

Inflation pressure

The difficulty for savers and investors when inflation is high is that it can eat into their savings. The issue is particularly acute for pensioners who may have limited control over

their sources of income but are seeing bills for things such as heating rise dramatically.

It is possible to save in some funds that offer inflation protection such as the hugely popular National Savings and Investments certificates but they are not always available.

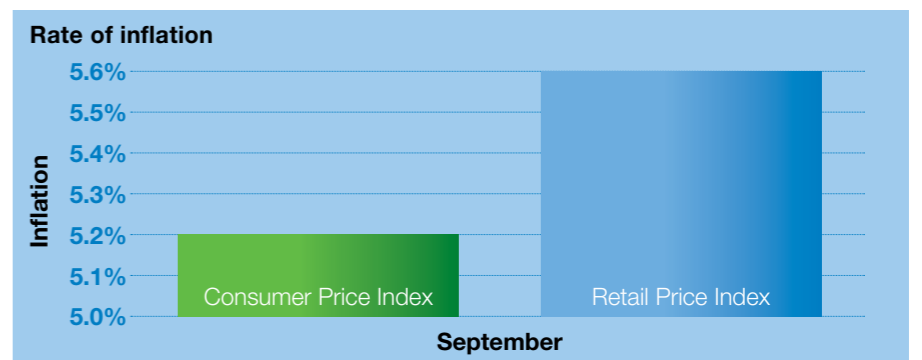
Other fixed rate bonds may be available from the Post Office and some banks and building societies offer inflation proofing as well, particularly if you are prepared to lock up some money for a period of time, though the structure, conditions and tax efficiency can vary too.

You might also consider certain structured investment products or examining your investment portfolio to

see if it can be adjusted to produce more income. However, you have to consider whether any adjustments could increase your risk exposure and, of course, what any changes might mean for your overall capital position.

Bonds in particular may face a challenge in a higher inflation environment, and even equities and commodities have to perform better to post real growth.

Elsewhere in this newsletter, we discuss ways in which a strategic asset allocation can help your investment cope with difficult markets in the long term. But if you feel you need to adjust your plans to cope with this higher inflation environment, we recommend seeking help from you IFA.



Junior ISAs

Investment for juniors

The government has just launched the Junior Individual Savings Account or Junior Isa, a savings or investment plan for children. For each year of a child's life until they reach the age of 18, you, your family or friends can contribute up to £3,600 a year into the scheme. The junior Isa loosely replaces the child trust fund, though it is arguably less generous, as the Government does not contribute to the scheme. It is, however, a useful tax shelter and works in

much the same way as an Isa.

While it has always been possible to contribute to some form of children's savings, this has always required you to fill in certain forms or be liable for some tax. The JISA is arguably a much simpler system. Any contributions and investment gains will now be tax free. A range of plans are available investing in a wide range of assets. You can also invest part of the money in a cash Junior Isa and part in stocks and shares and most



“ It is a useful tax shelter and works in much the same way as an ISA ”

providers take regular contributions, some from as little as £10 a month, as well as one off investments. Given that it is likely the money will be invested for a long time, it is certainly worth considering investing in a fund.

The JISAs run to the same timetable as full ISAs, i.e. you must take them out by the tax year deadline on April 5th or lose the allowance. JISAs are available to

children aged under 18 born before 1 September 2002 or children born after 3 January 2011, i.e. excluding children who were eligible for a child trust fund. Parents of children with a CTF can continue contributing to them.

The child can take over management of the money from age 16 and gain access to the money at 18, though they can also roll over

any savings into an adult ISA.

The money may of course help towards university education or a deposit for a house or even to set up a small business and we think grandparents may particularly wish to take advantage of the scheme.

If you would like to discuss your options perhaps, along with your own Isa plans, please don't hesitate to contact us.

Recession and inflation fears for Europe in 2012

Fund managers are presenting a realistic, if downbeat assessment of the UK and Europe's economic prospects.

In an interview posted on Invesco Perpetual's website, Neil Woodford, manager of the Invesco Perpetual High Income fund, says he believes Europe will experience a recession next year, and the UK may follow as banks continue to deleverage from the financial crisis. He fears it will be a long time before economies can grow again as banks deleverage.

He said: "The outlook for the European economy has deteriorated quite significantly. I do expect the Eurozone to be in recession next year and the UK economy could well be following suit."

Jupiter income manager Tony Nutt is concerned about inflation on a longer term time horizon than many commentators. Although he believes it will fall back in the short term, he thinks it could then rise again to as high as 8 per cent in 2015 as the impact of quantitative easing works its way through the system.

Points to remember

- Pressure on inflation to rise
- Fears for Eurozone recession in 2012
- New technology may help fuel future economic growth

“The outlook for the European economy has deteriorated quite significantly.”

Talking to financial website Fundweb, he said: "I think inflation could hit 7 to 8 per cent in the UK in the longer term. The historical

evidence is clear. If there is a lot of money in the system that gets used and abused, it only leads to higher inflation. There is no doubt that quantitative easing leaked into emerging markets while the fuel and food cost 'push' pressures do not help the argument that it will fall back longer term."

But some fund managers believe that investors can focus too much on the politics and economics of the crisis and overlook technological progress which can bring long term improvements in efficiency and therefore long term gains.

Nick Train, manager of the Lindsell Train UK equity fund, is actually rather bullish. In an interview with trade newspaper Investment Week, he said: "We

have been saying to shareholders and potential investors we think far and away the most important news development in Q3 2011 had nothing to do with Greece or the euro. From our perspective the most important development was Amazon's Kindle Fire - because of the productivity benefits resulting from a device that has significantly cut the cost of mobile computing power and access.

He pointed to the "near certainty" that school pupils will rely on electronic devices rather than textbooks within the next decade, but went on: "We may be wrong on this, but equity value over time is typically driven by secular real growth and productivity gains. That is much more of a technology issue than one relating to politics or currencies."

So not all bad news, but fund managers clearly view this as a difficult environment. If you have any concerns about your portfolio please contact your IFA.



Amazon's Kindle Fire: Driving growth