Another six months has flown by since our last newsletter and again there has been a lot going on. On the sporting front we have not enjoyed the successes of last year and our exit from the World Cup, whilst expected, was still disappointing. Murray couldn’t find the form he had last summer and we don’t even talk about cricket anymore!! More pleasingly however, investment markets have stabilised in recent months with the FTSE 100 index at the time of writing about the same level as it was at the beginning of January. Inevitably, with mixed economic news around the world and worries about the Ukraine and Middle East there has been some volatility but this has proved short lived as with interest rates still rooted to the spot, investors have seemed prepared to accept more volatility. More on this in Investment Matters.

The 19th March heralded George Osborne’s latest budget and what a budget it was! The budget was fairly upbeat all round but will be remembered as the budget for savers, with increases to ISA allowances and the announcement of the Pensioner’s Bond from 2015. However the biggest changes were to pensions and how people can access their accumulated funds. This is probably the most radical change to pensions we have seen in our lifetimes and will remove the primary objection that many workers have about starting pensions just in time for companies autoenrolling their staff into pension schemes. Following the budget I had a meeting with Pensions Minister and local MP Steve Webb, both to congratulate him and his team on keeping the best kept secret ever but also to seek clarification on a number of consequences of the changes in the budget that are relevant for our clients. More on these matters are covered later but there remain some questions for which we hope to receive clarification in the Autumn statement.

As for Fraser Heath, we are enjoying another busy year and are increasing our team with Nikki Gear having joined us in June and Sara McTaggart joining us in August. Nikki is strengthening our administration team so that Miranda Wood, who has been with us some eight years and successfully undertaken a number of exams, can move into our para planning team where Sara will also be working. There is no doubt that there is increased demand for financial advice in the investment and mortgage sectors but particularly in the retirement market where the new changes provide really excellent options for many, especially those considering retiring a few years before state retirement age. We expect to increase our numbers further later in the year.

Many thanks to those of you who came to our golf day and apologies for those who could not make it this year. Just for a change the weather was kind and we had a lovely day. Congratulations go to our prize winners and many thanks also for your generosity in helping to raise over £2,000 for charity on the day.

So I will leave you to the rest our newsletter and to enjoy what seems like another pretty decent summer.

Jim Collier
In February I said that we did not expect stock markets to perform as strongly as they had in 2013 and shortly after this it looked like a real understatement as global markets fell sharply. The first four months of 2014 witnessed some pretty serious corrections for many stocks, sectors and regions. Biotech and Social Media and many Emerging Markets and Japan underwent significant contractions between January and April, though they are now recovering. The UK and US markets also fell but again have recovered to levels at the end of 2013.

In the first few months of the year we have seen UK unemployment fall to 6.6%, far more quickly than expected, inflation fall further and house prices increase rapidly, particularly in the south, as improving consumer confidence and pent up demand took hold. However, comments from Mark Carney, tougher lending criteria introduced under the Mortgage Market Review, the prospect of rising interest rates and an appreciation that prices cannot rise for ever has led to a slowdown in the last two months with prices actually falling in London for the first time in two years.

Sterling has continued to appreciate against foreign currencies and this has helped bring inflation down although it did dip upwards last month. This is welcome news for those off on holiday but it won’t be long before our exporters really feel the pinch as already evidenced by Diageo’s share price, which has fallen by more than 15% over the last year.

So what do we think? We and many other investment houses believe that company results this year have given justification to the exuberance of equity markets last year but have not been strong enough to send markets higher. This has led to a lower volatility in equity markets in the last three months as investors, faced with limited alternatives, seem prepared to stay invested, despite the increasing unrest in the Middle East and potential impact on oil prices, and the old adage of sell in May and go away being proved wrong so far this year.

However, not all asset classes are sharing the same enthusiasm as equities. Government bond yields continue to go lower, and real yields of 0.4% in US 10-year government bonds suggest the markets do not believe in the 2% to 3% real growth which seems to be driving equity valuations.

In July, it was announced US GDP shrank 2.9% in the first quarter on 2014, its worst performance in five years. It may not be time to sell up and run for the hills, but in a world where equity markets are not pricing in any form of sell off, it pays to keep your investments well diversified.

So with continued difficulties hanging over bond markets we have reduced weightings and maintained our approach of using Strategic corporate bonds where the fund manager has the freedom to move between investment grade, high yield and index linked bonds. We have increased the use of Alternative strategies and it is now also a year since we introduced commercial property to our portfolios, primarily for yield but we are now seeing growth as well. We have maintained our equity holdings and increased exposure to funds with strong yields as we believe this is where the majority of your investment return will come from. So no repeat of last year’s returns is expected but we are hopeful that the underlying gradual recovery in the global economy will support current valuations and deter any marked corrections.

Mark Fletcher

In Brief

Planning for Long Term Care

Over the past few years, we have become all too familiar with the effects of an ageing UK population on pension funding and the gap in state benefits.

While the cap on care costs of £72,000 is expected to come into force in 2016 this only caps the cost of direct care and other living expenses have to be met in addition.

Many people are therefore looking for ways to help prepare for such an eventuality, either through a pre funded insurance policy or, if the situation has already arisen, through an immediate care plan.

‘Immediate needs annuities’ can help to bridge the gap between your income and the cost of your care and are designed to help cover the cost of care if you need it immediately. They pay a guaranteed level of income for as long as you live, in exchange for the payment of a one off lump sum. Pre funded care plans are no longer available to purchase, although you might have a preexisting policy that allowed you to insure your future care requirements before they arose. Another possibility would be to consider using your pension pot to buy an enhanced annuity if you have a medical condition, a long term illness or a lifestyle that could affect your health.

If your income is sufficient or if you have significant savings, you might be able to make any necessary payments for care from your existing resources – in fact, this could well be the most appropriate strategy in the case of short term requirements.

Above all, however, it is important to plan ahead and consider what strategies would be available for you or your family should the need arise.
Pensions Revolution

Pensions are the Luis Suárez of the financial world. Much like we can admire the mercurial Uruguayan’s ability with a football we can also admire the pension’s ability to boost our savings with tax breaks. The flaw with pensions has been that when we want our money back we can’t have it in full; that’s when pensions have in the past come back to bite us.

The changes announced in the March 2014 budget are the single biggest shake up of pensions in living memory. Already some pension savers can get their hands on all their money and everyone is expected to have unrestricted access from next April. It’s time to forgive and forget your preconceptions about pensions because it’s just about to have its teeth removed.

Just Because You Can Doesn’t Mean You Should

The legislation is expected to allow you to get your hands on your entire pension fund. The first thing to consider with this opportunity is income tax. While a quarter of the fund is tax free the rest is added to your taxable income. Care needs to be taken to ensure that you withdraw funds tax efficiently.

The next consideration is to ask yourself why withdraw all the money? Under the old rules the answer might be straightforward, “because I don’t want to buy an annuity”. Under the new rules, no one is forcing you to do anything with your pension fund that you don’t want to do. If you keep it in the pension fund it can grow free of tax on capital gains and interest and can be free from inheritance tax on death. However, if you take the money out then you need to think about how you can arrange your money tax efficiently.

Not Running out of Money

Giving us access to our pensions is a move by government to finally treat us like adults who can be trusted with our money. It’s incumbent on us then to behave like grown ups and make sure that however we arrange our finances that there will be sufficient to see us through the rest of our lives. The risk is that either you become too prudent and die leaving money in the bank that you wished you had enjoyed or you become too reckless and have a long life in which to regret the extravagance of your misspent early retirement.

For some, giving up their pension fund in return for a guaranteed income for life will be a great solution, either in part or in whole. For others, possibly with an income from other sources such as a defined benefit pension, some thought needs to go into what level of expenditure is supportable, what investment return (and therefore risk) might be needed on investments to meet this expenditure, and how to adapt to unexpected calls on capital and changes in the investment world.

Many clients will know that making plans for retirement and continuously reviewing them as circumstances change is what we do. According to research from Age UK, however, only a third of people take professional financial advice. To help those people without an adviser to make informed decisions at the point of retirement the government plans to introduce a Guidance Guarantee. Research from MGM Advantage suggests that less than half of savers offered the Guidance Guarantee will take advantage of the service.

Restrictions on transfers from Defined Benefit Schemes

As part of the consultation the government considered a ban on transfers from defined benefit schemes to defined contribution schemes. Although they like the idea of freedom of choice, they are concerned about the unintended consequences on the wider UK economy if defined benefit schemes shrink due to transfers out. The compromise is that transfers will be allowed from defined benefit schemes that are funded (and therefore not from the majority of public sector schemes where no pot of money exists) providing that you have had financial advice from a regulated pension specialist.

For most investors, staying in the defined benefit scheme will be the option that generates the most value during your lifetime. There may be a small number of people who could benefit from a transfer to a defined contribution pension, including those;

- with shorter than average life expectancies
- who expect to be single in retirement and for whom the value of the spouse’s pension included in the transfer value is wasted if you stay in the scheme
- with more than one defined benefit pension

If one or more of these circumstances apply to you and you would like to consider a transfer, please get in touch with your usual adviser at Fraser Heath and we can discuss the pros and cons further. Continued...
Save Now While Stocks Last

The Queen’s Speech in June signalled that the government intends to also legislate “to prevent individuals taking advantage of the new flexible arrangements for tax avoidance purposes.” It’s not clear what this entails but we can certainly see a number of ways that savers can take advantage of the new flexible access to reduce their tax bill. For example a higher rate tax payer could make a large pension contribution in the year before retirement and get higher rate tax relief only to then retire and withdraw funds as a basic rate tax payer in the next tax year.

There is no industry consensus on what these steps might include. Suggestions include a minimum investment period, reductions in the rate of tax relief on contributions, taxation on the pension commencement lump sum in certain circumstances and a further reduction in the lifetime allowance. One change already announced is that for those who take advantage of accessing pension funds flexibly that the Annual Allowance will be reduced from £40,000 per year to £10,000 per year.

This period of uncertainty means that it is difficult to make decisions on saving in your pension with 100% confidence. However, on the balance of probability, making contributions to your pension in the current regime may well be beneficial.

Miles Hendy

Mortgages

The Governor of the Bank of England has given his strongest warning yet about the dangers to Britain’s economy posed by the booming housing market. Mark Carney said the market represented the ‘biggest risk’ to financial stability and the long term recovery. He added there were deep structural problems which needed to be addressed. He said the fundamental problem was a shortage of homes and the Bank of England had no solution to that.

In an interview he said that the Bank was ‘closely watching’ rising prices and the subsequent increase in large value mortgages, which he warned could lead to a ‘debt overhang’ which might destabilise the economy.

In response the Council of Mortgage Lenders said “the Bank of England has signalled that macroprudential measures to limit the housing market upturn are likely in the near future and possibly in the very near future. This reflects a forward looking judgement on the part of the Bank of England, designed to ensure that mortgage credit growth associated with the housing recovery of the next few years is sustainable. Forthcoming measures will, in our estimation, be careful, calibrated and proportionate and designed to reinforce prudent affordability checks, rather than to apply brakes to the housing market. Mark Carney said the market represented the ‘biggest risk’ about the dangers to Britain’s economy posed by the booming housing market. Mark Carney said the market represented the ‘biggest risk’ to financial stability and the long term recovery. He added there were deep structural problems which needed to be addressed. He said the fundamental problem was a shortage of homes and the Bank of England had no solution to that.

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Shaun Smith

New Savings Option for over 65’s

National Savings & Investments will offer a new ‘Pensioner Bond’ from January 2015. The Pensioner Bond will be available to the over 65s and pay an interest rate expected to be up to 4% on savings of up to £10,000 per person. Full details are to be announced in the autumn regarding what is on offer but there has been talk of a one year fixed bond at 2.8% and a three year bond at 4% before tax. NS&I currently only plan to issue £10bn worth so non tax payers and some basic rate tax payers looking to take advantage will need to be quick off the mark.

A NISA way to save

Individual Savings Accounts (ISAs) entered a new phase from 1 July 2014. The ‘New ISA’ (NISA) limit increased to £15,000 and you can invest as much as you like of this allowance in cash, stocks & shares or a combination of the two. Investors are also able to transfer ISA savings from previous years freely between stocks & shares and cash. Interest on cash held within the stocks & shares element of the NISA will be free of tax.

This means that, from 1 July, you can have just one NISA, rather than separate NISAs for cash and stocks & shares. This simplicity might be attractive to some investors although you should not assume you will receive the best rate of interest on the cash element, and it might be worth having a separate cash NISA if you want a competitive rate. You can also transfer your NISAs freely between providers – subject to any penalties that might be applied by your existing provider – but you can only have one cash NISA and one stocks & shares NISA in any single tax year.

Any ISA subscription made between 6 April and 30 June 2014 will be counted against the £15,000 NISA subscription and you will not be allowed to open up a new NISA for the current tax year from 1 July. Instead, you will have to top up the existing account. Do check with your provider’s terms and conditions – particularly if you have already opened a fixed rate cash ISA.

The range of investments that can be held within a NISA has also expanded – for example, you can now hold corporate bonds with less than five years left to maturity. This expansion is likely to lead to an increase in new products from providers that, in turn, will provide greater choice for savers. One thing will not change, however – once it’s gone, it’s gone. At the end of each tax year, you lose any unused ISA allowance, so make sure you act in good time and, if you are unsure about anything, please speak to your adviser at Fraser Heath.

Richard Ellis

Helping you face the future with knowledge and confidence. Visit our website or call us today for further information

Fraser Heath Financial Management Ltd
The Stables, Says Court Farm,
Badminton Road, Frampton Cotterell,
Bristol, BS36 2NY

Tel: 01454 327758
Fax: 01454 327799
office@fraserheath.co.uk
www.fraserheath.co.uk

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