Welcome to the latest edition of our newsletter.

This month we feature...

Legislative changes, Interest rates and your mortgage, ISAs and Protection

OH GOOD MORE CHANGE

Your financial adviser absorbs the **endless torrent of new legislation** potentially affecting their clients' financial health – so you don't have to. With scarcely a man, woman or child untouched by the changes affecting pensions, benefits, taxation and personal allowances, courtesy of the government's fiscal austerity programme, what better time to seek guidance on how the new rules affect both your present position and future plans?

For high earners, the new 50% tax rate for income above £150,000 and reduced personal allowance for those earning over £100,000 have already come into effect, along with an **increase in capital gains tax** for higher rate tax payers and a hike to dividend tax rates for the highest paid. This has obvious implications for the **tax strategies** of anyone earning more than £43,875 (2010/11). But the compelling tax benefits of contributing to a pension continue - tax relief on pension contributions remains available up to your highest rate of income tax, to a new maximum of £50,000 per annum from April 2011 (plus up to three years' previously unused allowance).

The **obligation to purchase an annuity** with pension benefits at age 75 ends from April 2011. So drawdown arrangements and their alternative death benefits (though not a guaranteed income) can continue as an alternative to the traditional annuity after this age. Those over 55 who already have pre-tax 'secured income' in excess of £20,000 per annum (from state/occupational pensions or annuity income) will now be able to withdraw **unlimited amounts from their pension fund** each year, although subject to income tax, on new flexi drawdown arrangements from 6/4/11.

More pain for higher earners from 2013 - child benefit is to be withdrawn from households where one parent is paying higher-rate income tax – a family with two children would lose £1,752.40 each year at current rates. This controversial policy has attracted strong criticism, but highlights the **virtues of salary sacrifice**, whereby you reach an agreement with your employer to 'sacrifice' some of your salary in exchange for enhanced pension contributions, childcare vouchers, car leasing or even additional holiday, potentially not only protecting you from cuts to child benefit, but also from higher income tax and the **rise in NI contributions** taking effect from April 2011.

Faced with additional increases in tuition fees, VAT and commodity costs, it's no surprise that so many families are feeling the squeeze, but it remains **vitally important** to stay focused on your long-term goals.

These are just some of the important considerations that should be looked at, for a more detailed review, please contact us.

INTEREST RATES AND YOUR MORTGAGE

Along with diet advice and house price forecasts, the New Year traditionally ushers in new, often inconsistent, predictions about the movement of the base rate as set by the Bank of England's Monetary Policy Committee (MPC). Many commentators now expect the rate to rise imminently from its current low of 0.5%, since inflation keeps stubbornly exceeding its 2% target and because the 'crisis' phase of the financial crisis appears to have eased. The CBI, for example, predicts that the base rate will have reached 2.75% by the end of 2012. Meanwhile, a member of the MPC has been warning mortgage owners enjoying extremely low variable rates that, ultimately, a return to a 'normalised' base rate in the region of 5% is desirable.

With many families battening down the financial hatches in the face of rising VAT, National Insurance, travel and other living costs, the recent surge in remortgaging activity indicates a desire to avoid another 'payment shock' once rates rise. Those with interest-only mortgages should also be aware that they may find it hard, even impossible, to remortgage on the same basis in future if tough new lending proposals from the FSA (due to be announced shortly) are enshrined into law.

Some excellent fixed rate deals are currently on offer, particularly for those who own a sizeable chunk of equity in their homes. Despite dire warnings of a mortgage 'drought', financial advisers are still busy matching their clients to competitive deals. Neither are those with limited equity in their homes or first-time buyers excluded: your adviser has up-to-date information on the best lenders to approach in terms of your individual circumstances, ensuring you fit their criteria **before** approaching them. (By targeting your lender appropriately you can avoid damage to your credit record from numerous credit searches due to multiple applications.) Nor is a low interest rate the whole story – the costs for comparison must be looked at over the full term, together with fees and any penalties for switching, to ensure that the mortgage deal suits your situation. Finally, be pro-active and check your credit rating. If it's less than perfect, your adviser can also help you to work out what is affecting your credit score and optimise your chances of securing a great deal before rates rise. Hatches secured.

Your home may be repossessed if you do not keep up repayments on your mortgage.

A fee of a maximum of up to 1% of the loan will be payable upon application, typically this will be £500.

ISAS

USE IT OR LOSE IT

Protect your hard-earned savings from the tax man - and act soon - because your ISA allowance for this tax year ends on 6th April. The returns on your annual allowance of £10,200 (£5,100 of which can be placed into a cash ISA) are free of both income and capital gains tax and if you are investing in shares, tax on dividends is limited to 10% for both basic and higher rate tax payers.

Stocks and shares ISAs should be viewed as a long-term investment and ideally held for a minimum of 5 years. With literally thousands of funds available, it can be confusing making choices in line with your aspirations and attitude to risk. For example, you may be aiming for capital growth in the long term or, alternatively, be using your ISA to achieve the highest possible regular income, perhaps to complement pension savings. Deciding how much risk you are willing to take in the pursuit of a healthy return is crucially important and should be reflected in your investment choices. Your financial adviser can help you to determine this and will also point you in the direction of funds which are 'best in class', with reasonable initial fees and annual running costs.

Cash ISAs are a suitable option for the risk averse, but research will be required to find a decent rate of interest. If you are willing to leave your money untouched for a long period, the best rates are often for two, three and five year terms. If you want unrestricted access to your funds, remember that if you have invested the maximum amount permitted into your ISA(s) in any given tax year, the money withdrawn can't be reinstated until the following year.

Regular meetings with your adviser to evaluate your investments are important. For example, few funds stay at the top of performance tables for long and serially underperforming funds can be harmful to your wealth. Your adviser will be happy to undertake a full portfolio review in order to:

- Re-examine whether your investments are suitable for your goals
- Highlight poorly performing funds.
- Calculate your exposure to risk
- Rebalance your holdings and/or sector exposures as necessary

April will be here before we know it, so resolve to make your ISA arrangements now.

Tax concessions are not guaranteed and may change in the future. The value of your investments and any income from them can fall as well as rise.

PROTECTING THE FAMILY

You may have some life insurance via your employment or to cover a mortgage but, unpleasant as it is to contemplate, would your family be sufficiently protected in the event of your death or a serious illness? Life cover is not complicated and can be surprisingly inexpensive. Having said that, it's worth taking a little time to understand the various types of cover that are available and how best to arrange it:

Term Life insurance – lump sum payment
This provides your dependants with a lump sum benefit if you die within a stated period of time. When deciding the amount of this benefit, try calculating the total of all loans (including your mortgage) and then subtract from this sum any existing life cover (such as 'Death in Service' benefits) and your saleable assets. Add to this figure your family's living expenses for a given number of years, less your partner's take-home salary, if they work.

Term Life insurance – regular payments
Also known as Family Income Benefit, this policy pays a regular tax-free income to your family for a stated period, rather than a lump sum. The amount received by your dependants can remain constant or index-linked to rise in line with inflation.

Whole Life Insurance
Whole life insurance is a type of policy that remains valid for the life of the policyholder and so will inevitably pay out, sometimes building up an investment value that can be cashed in by surrendering the policy. It is tax-efficient – and a particularly valuable tool for IHT planning – but more expensive than ordinary life cover. Your financial adviser can tell you whether it's a sensible option for your circumstances.

Critical Illness cover
Critical illness cover provides valuable extra protection when combined with a life insurance policy and for those without dependents, may be more important than life cover and can be set up on a stand alone basis. It additionally covers you for a range of listed critical illnesses, providing a lump sum or monthly payments if you are prevented from working due to accident or illness, even if you recover fully.

Last but not least – consider a Trust
Placing a life insurance policy 'in Trust' is simple to do and has a number of benefits. For example, proceeds from the policy pass directly to your beneficiaries (rather than to your estate) which can considerably speed up payment and also be valuable for IHT planning.

For expert advice on keenly-priced protection which suits your needs, ask your adviser.

More information...

If you wish to discuss any aspect of financial planning please feel free to contact us.

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