

## H.L. Financial Ltd

The Foundry, 15 Yorke Street, Wrexham, LL13 8LW

Tel: 01978 345255

E-Mail: office@hlfinancial-ifa.co.uk

Website: www.hlfinancial-ifa.co.uk

Authorised and regulated by the Financial Services Authority.

### Your independent window on financial issues

## A Budget for making things ...



A focus on growing the private sector

The aim of this Budget was to help the UK recover its position as a manufacturing country.

To achieve this, we need to make it easier for businesses to start up and thrive, as well as to reduce the proportion of GDP represented by the state. According to the Budget Statement, GDP growth forecasts have been cut from 2.1% to 1.7% due to weaker than expected 4Q10, higher inflation and increased commodity costs. However, the future looks stronger with the economy set to grow by 2.5% next year, rising to 2.9% in 2014.

Additionally, borrowing for the year is forecast at £146bn, falling to £29bn by 2015/16 and CPI

inflation is likely to remain between 4% and 5% for 2011, before reducing to 2.5% next year and to 2% in two years' time.

### Personal taxation

The personal allowance - already set to rise by £1,000 to £7,475 - will be increased for 2012/13 by a further £630 to £8,105, for under-65s. The government will consult on merging the tax and National Insurance systems, in order to simplify their operation for businesses. This will not affect pensions or other forms of income.

The 50% income tax rate is not seen as permanent, but future tax indexation will be in line with the CPI rather than the (generally) higher RPI. This means that thresholds will not keep pace with the higher measure of inflation in future. This also applies to ISA limits from April 2012.

The tax relief available on Enterprise Investment Schemes increases from 20% to 30% and the capital gains tax entrepreneurs' lifetime relief is doubled to £10 million.

The fuel duty escalator announced in 2009 Budget is abolished and replaced by a 'fair fuel stabiliser', paid for by a levy on oil companies. The main fuel duty rate was cut by 1p per litre from Budget day.

### Business taxation

The main rate of corporation tax is cut by 2% rather than the 1% previously announced, producing a rate of 26% from April 2011. It will be cut by a further 1% each year, until it reaches 23%, making it lower than in France and the US.

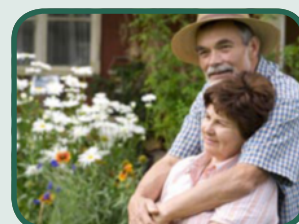
The tax system is being simplified with the removal of more than 100 pages of code. To help small businesses in particular, £350 million worth of specific regulations are being removed and 21 new Enterprise Zones are being created, offering businesses up to 100% discount on rates, new super-fast broadband and the potential to use enhanced capital allowances in zones where there is a strong focus on manufacturing. The small business rate relief holiday has also been extended by one year from 1 October 2011.

Overall, it is to be hoped that, while there is little short-term joy for families, there is real potential for an economic recovery that can make us all better off over the longer term.

## INSIDE THIS ISSUE



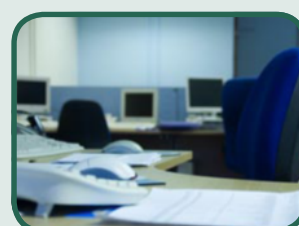
The impact of inflation on savings



Living to 100 and beyond ...



Reviewing asset allocations



Providing a company pension

## The impact of inflation on savings

Even if interest rates rise throughout 2011, it is unlikely that they will rise high enough for savers to achieve a positive return, in real terms, any time soon.



**A mismatch between interest rates and inflation**

On the basis of Consumer Prices Index inflation at 4% a year, a basic rate taxpayer needs to earn 5% before tax, if the impact of inflation at this level is not to erode the purchasing power of their non-ISA cash savings. Matching the Retail Prices Index figure, which is usually higher, makes achieving real growth even more difficult.

This situation may encourage investors to adopt higher risk strategies, to secure a better return.

### Is risk a bad thing?

Risk is an integral part of investment; generally, the greater the risk, the higher the potential reward. However, the value of investments really can go down as well as up – if you accept greater risk in return for the prospect of larger profits, you could lose part or all of your money.

On the other hand, leaving your cash on deposit can simply mean that its value withers over the years, in any event.

### Unacceptable risk

What is unacceptable, in terms of risk, is leaving yourself open to potential losses that you are not aware of. This can happen with some forms of derivative-backed investments that look as if they are guaranteed; but the protection evaporates under certain circumstances, such as default by the guarantor.

### Acceptable risk

'Nothing ventured, nothing gained', they say. You cannot afford to go through life in cotton wool, but must accept some degree of risk if you are to achieve any growth. To do this successfully you must understand what risks you are exposed to with various types of investment, and consider an asset allocation strategy that gives you the best chances of success.

Asset allocation strategies involve ensuring that you do not have all your eggs in one basket. Of course, if you knew in advance which horse would win the Grand National, you could

put all your money on it to win. But in reality, the future is a closed book. If we cannot put all our money on a 'sure winner', spreading our investments avoids putting everything on a 'loser'. Selecting different shares to invest in, for example, means that you have a greater chance that, if one sector performs less strongly, another might shine.

Not everyone will require the same strategy, but looking at separate business sectors, company sizes and geographical locations could be a good start. For those with larger sums to invest, it may also be worth considering inclusion of a wider range of assets such as commodities and property. These, however, have different risk profiles compared with more traditional assets such as shares and most collective investments, so individual advice is essential.

It is important always to seek independent financial advice before making any decision regarding your finances. The value of investments is not guaranteed; you may get back less than you put in.

## Living to 100 and beyond ...

According to a report in the *Telegraph* (29th December 2010), 10 million people who are alive in the UK today will live to more than 100 years old. That is both good and bad news. Of course, nobody wants to die, so the prospect of living to more than a hundred years of age sounds appealing.



**Will eighty be the new sixty?**

There are, however, a number of issues that, while not necessarily detracting from what is really good news, should at least give us pause for thought. All it takes is a little planning to ensure that increased longevity is the bonus that it should be.

### Making your savings last longer

The key issue for most of us, especially those who are already over 50 (and therefore have less time to build up additional pension funds) is that our money is going to have to last much longer for us.

Purchasing an annuity with your pension fund when you retire may sound a good idea, as this gives you a guaranteed income for the rest of your life. Unfortunately, because insurance companies know that we are living longer, and as interest rates

are currently very low, annuity rates are nothing like as high as they once were. This means that we will receive a smaller annual pension, for a given pension fund, than a decade or so ago.

The solution to this comes in several stages. The first is to maximise the amount we put into our pension provision so that we have more money available to live off later on in life.

The second is to consider gradually 'phasing in' retirement, rather than giving up work on one day, using the changeover period to enhance our retirement pots. This is made easier by a rule change that means we can now manage the way we take income from our pension plans without having to buy an annuity. In fact many of us will not even have to buy an annuity when we reach the age of 75 as once was the case.

### Health is an issue

As we get older our health may deteriorate and we could start to need more assistance in coping with activities of daily living. There are forms of investment designed to assist with what is called 'long term care' and these can be funded in a number of ways, including lump sum investments and funding by releasing equity from the family home.

Hopefully, improvements in health care will ensure that many of us remain far fitter for longer than was once the case, so the average time for which long term care is required is not much longer than at present.

It is important always to seek independent financial advice before making any decision regarding your finances. The value of investments is not guaranteed; you may get back less than you put in.

## Reviewing asset allocations

**Putting all your eggs in one basket has never been a sound investment strategy.** It is not so much that one asset class cannot outperform all others - it can, but the problem is how to identify in advance which it will be. Picking the wrong 'horse' can be disastrous, so by adopting a diverse investment strategy, you give yourself a better chance of picking some 'winners' along with others that might be less successful.

Because almost all investments fluctuate in value over time, this applies to regular investments just as much as with lump sums. After all, when share prices are low, a fixed monthly contribution purchases more of them; as prices bounce back, you can be potentially better off.

### What sort of diversification?

For most people investing in shares or collective investments, one option is to ensure that all your investments are not in the same type of share - for example, all financial companies, manufacturers or exporters - but are spread out between funds investing in a range of businesses throughout the economy. This is



**Not a wise investment strategy**

because some parts of the market can do well while others suffer.

Recent events amply demonstrated how the once 'safe' banks suffered dramatically at the start of the credit crunch, whereas some businesses focusing on recycling and similar areas have performed better, as consumers' behaviour changed.

Similarly, investing entirely in the UK may have the benefit of avoiding currency fluctuations, but it can also result in investors missing out on the significant growth that has been taking place in other parts of the world. There are, of course, political and economic risks associated with overseas investments, but increasing globalisation may be seen as reducing these.

### A key message

What is really important is that, together with your independent financial adviser, you are able to assess the risks involved in each form of investment and the extent to which this is acceptable to you.

### Individual Savings Accounts

With the advent of a new financial year on 6th April, the amount that anyone over the age of 18 can invest into an ISA increases to £10,680 (from £10,200 for 2010/11). Up to half of this can be in cash, with the entire balance invested in shares, or share-based collective investments.

This means that a couple can shelter as much as £21,360 between them against UK taxes on income and capital gains (other than the 10% withholding tax on dividends). Importantly, the money can be taken out at any time as a lump sum or income with no tax payable by the investor at all.

ISAs should be considered together with all other investments, including pensions, when looking at an overall asset allocation strategy. And remember, your largest single asset is probably your home; this counts too.

It is important always to seek independent financial advice before making any decision regarding your finances. The value of investments is not guaranteed; you may get back less than you put in.

## News in brief (data compiled by The Insurance Marketing Department Ltd. except where otherwise stated)

Despite a difficult March, driven largely by events in Libya and Japan, the FTSE100 ended the first quarter of 2011 0.15% higher than at the end of last year. The Dow Jones, however, actually rose by 6.41% over the same period.

The mid-cap FTSE250 similarly performed positively during the first quarter growing by 0.29% but AIM, which had been performing more strongly, suffered more during March and therefore ended the quarter 3.46% down.

Sterling, which had fallen against the US dollar during the last quarter of 2010, bounced back by 2.86% in the first three months of this year, ending at \$1.61. However, compared with the euro, it lost 2.75% of its value to finish at €1.13.

Brent Crude 1-month futures rose by 23.68% during the first quarter; oil prices are now almost 40% higher than a year ago. Gold, however, has slowed its growth so that the price ended March only 0.98% higher in US dollar terms than at the end of 2010.

## Providing a company pension

News that two-thirds of small firms do not offer employees a pension should sound alarm bells, in view of the impending launch of the National Employment Savings Trust (NEST) pension scheme. Starting from October 2012, employers without a suitable pension scheme that auto-enrols employees and provides a minimum level of contributions will have to sign up to the NEST instead.

### Will NEST be enough?

Nobody should find themselves without any pension provision, but the 8% contribution level under NEST (on income above the National Insurance threshold) is unlikely to be adequate to provide a decent living in retirement. Many believe the contribution level should be at least double this, to offer a reasonable level of retirement income - more for older people who are only just starting to make provision.

### Why provide pensions?

Plans are underway to increase the basic state pension, but even if it reaches £140 a week this will still be inadequate to provide a reasonable level of retirement income. Some degree of personal planning is essential.

Historically, setting up a company pension could involve considerable administration time and cost - not to mention, in the case of defined benefit pensions, an open-ended financial commitment. But new types of pensions, particularly group personal pensions, have dramatically reduced the financial and administrative burden and these arrangements will continue to be available as an alternative to the new NEST scheme.

The benefit to an employer of offering a group pension scheme is that it can be seen as part of an integrated remuneration package that makes the company 'stand out' as a good employer. If employees see you as a good employer they may

be likely to work harder, which can pay dividends in terms of productivity and profitability over the longer term.

### Making pension contributions more cost-effective

Nevertheless, businesses must ensure that they are not spending money unnecessarily, so finding ways of making pension contributions that do not increase costs can be attractive.

One method is a so called 'salary sacrifice' under which employees give up part of their salary in return for pension contributions from the employer. This is 'tax neutral' for the employer, because he or she can charge this as a business expense, just like salaries. The employee receives a smaller salary, so pays less tax. There is also an immediate National Insurance 'benefit' to both employer and employee, because each will pay their NI contributions based on lower income.

With NI rates rising in April, this could be of considerable interest.

It is important always to seek independent financial advice before making any decision regarding your finances. The value of investments is not guaranteed; you may get back less than you put in.



**If you do not provide a pension, will anyone work for you?**

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Your home may be repossessed if you do not keep up the repayments on your mortgage. A fee may apply for mortgage advice and, if applicable, you must ask your adviser for details before making any decision relating to a new mortgage as the actual amount will depend on your personal circumstances, but in most cases is unlikely to exceed 0.5% of the loan value (on a typical £100,000 mortgage, this would be £500).