CHURCH'S UPDATE

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JANUARY/FEBRUARY 2011

Input into your Pension

2011 guide to growing MONEY

Plan for a Prosperous New Year

☆ Lifestyle Protection ☆ Creating Wealth ☆ Tax Rules ☆

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Plan for a prosperous NEW YEAR

Keeping New Year's resolutions is difficult, especially sorting out your finances. But simple steps can save you hundreds of pounds. Here, we outline ways to plan to a prosperous New Year.

Check your tax code

Elderly people and students are particularly susceptible to paying too much tax. Check your tax code now and you could receive a rebate. Your code should reflect your personal allowance. Up to age 64 this is £6,475 (tax code L), but from 65 to 74 it increases to £9,490 (tax code P) and at age 75 and above it is £9,640 (tax code Y). If you think your code may be wrong, contact your local tax office.

Move savings into ISAs

Savers had a dismal 2010, as interest rates fell to record lows. ISAs, which should be the first port of call for any taxpayer, allow you to invest up to £10,200 in both cash and stocks and shares, without being taxed on the returns. These levels are due to increase as from April 2011 in line with inflation to £10,680.

Reclaim forgotten cash

If you had premium bonds as a child, or received shares after a mutual or utility was listed on the Stock Exchange, you should reclaim the money. Go to www.mylostaccount.org.uk to search for dormant bank, building society and National Savings & Investments accounts. The Unclaimed Assets Register has a database of unclaimed life policies, pensions, unit trust holdings and share dividends drawn from many companies

Cut household bills

Use a comparison website to find a cheaper deal for your gas and electricity. The average yearly energy bill will be £1,239 in 2011, but this can be cut by up to £300 by switching to a different tariff, according to www.uSwitch.com. Moving to dual fuel, paying by direct debit and signing up to an online plan will all save cash.

Review pension arrangements

Do you know how much income you can expect in retirement? Contact your Professional Independent Financial Adviser to see if you are saving enough. You can also get a state pension forecast from the Pension Service by calling 0845 3000168.

Clear credit card debt

If you slapped Christmas on the credit card, paying this off should be a priority. If you are struggling with your debt, never skip a repayment or pay less than the minimum as it could lead to penalty charges and higher interest rates. Any missed payments will also remain on your file for six years. Talk to your card issuer if you have problems making repayments. You may be able to reschedule your payments, or take a temporary payment holiday.

Start saving for next Christmas

If you are debt-free, consider putting money aside for this year's holiday, or even for next Christmas.

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Input into your Pension

If you earn less than £130,000, you have until the new tax year which starts on 6 April 2011 to make a significant contribution into your pension fund, before the annual allowance for tax-privileged pension savings plummets to £50,000. But beware, you will need to check your pension fund's pension input period, if it is not in line with the tax year, you could be in for a nasty surprise.

Each and every pension scheme has a pension input period or PIP for short. This time period is used to measure the benefit accrued by a pension scheme member for tax purposes. These were introduced on 6 April 2006, which was known as 'A-Day', as part of the widespread pension simplification by the previous Government. The idea was to allow pension schemes the flexibility to align their annual allowance periods within their scheme year and their sponsoring employer's financial year.

The annual allowance is currently £255,000 but this is set to fall to £50,000 next tax year. This will be the maximum amount that you and your employer can contribute to a pension in any tax year without incurring a tax charge.

Some pension schemes have aligned their PIPs with the tax year but others may not have done so. If they are unaligned the possibility exists that an investor could find pension contributions made on one tax year being assessed against their annual allowance in a different tax year. Should this happen, it is the annual allowance in the year in which the accounting period ends that sets the limit for your pension contribution.

For example; if a pension scheme's accounting period ends on September 30 each year, contributions made between 30 September 2010 and 30 September 2011 will take up part of the annual allowance for the 2011-12 tax year, because that is the tax year in which the accounting period ends. With the annual allowance dropping to £50,000 pension contributions being made by some investors now could be tested against next year's lower allowance, potentially incurring a tax charge.

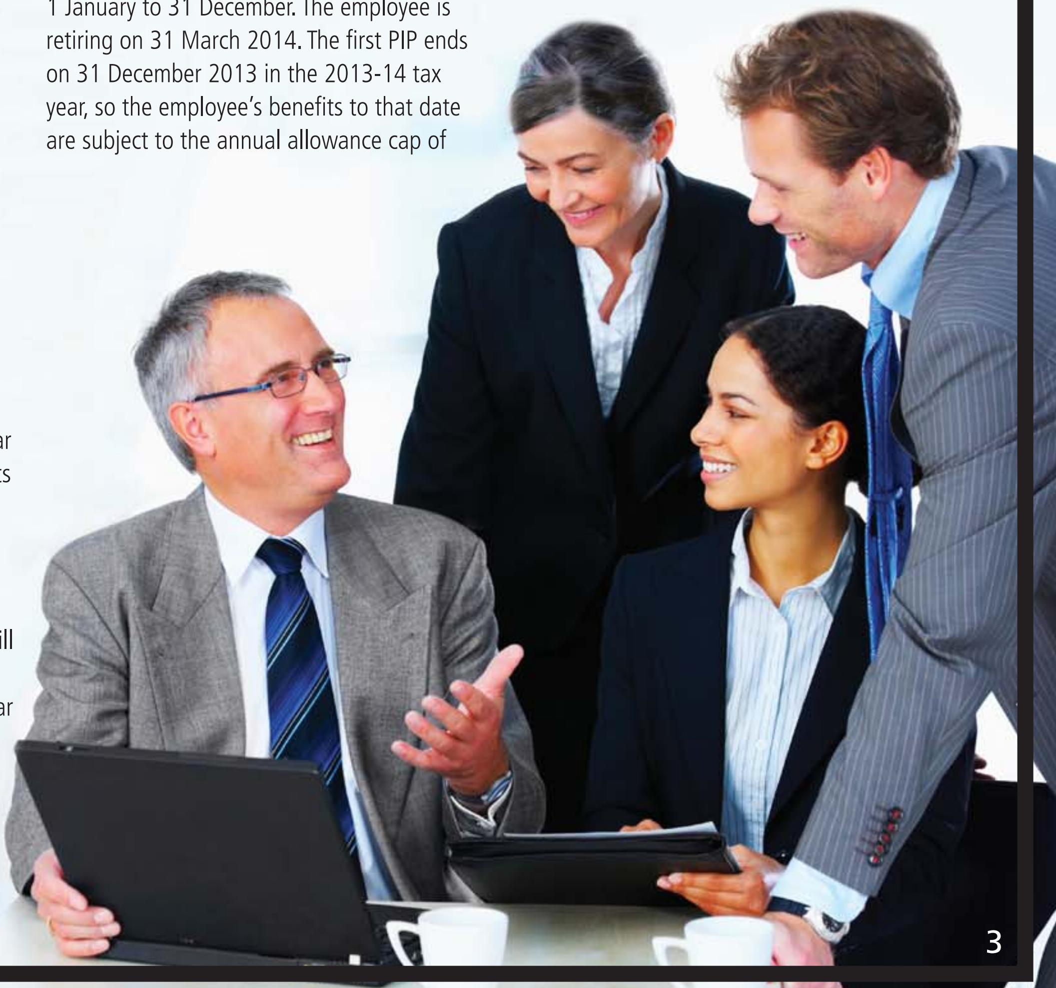
This could lead to problems for schemes that haven't notified their members of their PIP, including those who are retiring. Members of defined benefit schemes that didn't decide on their PIP in 2006, for tax purposes, are now assigned a default PIP year of 6 April 2010 to 6 April 2011. However, the tax year runs from 6 April 2010 to 5 April 2011. This one day may seem insignificant, but it could make a high earner eligible for a tax liability on payments made in 2010-11.

The new regime will also affect retiring employees, where the benefits accruing over up to two years could be measured against only one annual allowance of £50,000.

Under the current system, a PIP also ends the day you take all of your benefits from a scheme. It is currently possible to have two PIPs ending in the same tax year, but there is only one annual allowance in each tax year.

Imagine a scheme's PIP running from 1 January to 31 December. The employee is retiring on 31 March 2014. The first PIP ends on 31 December 2013 in the 2013-14 tax year, so the employee's benefits to that date are subject to the annual allowance cap of £50,000. Unfortunately, the scheme's next PIP ends 31 March 2014, the date of the member's retirement. This is also in the 2013-14 tax year, so must also be tested against any remaining annual allowance for that tax year.

Therefore it is essential for employees to know what the PIP is for their pension scheme. Using the above example, the member could decide to postpone retirement until after 6 April 2014 and as a result, have a single PIP ending on 31 December 2013. This being in the 2013-14 tax year and hence subject to an annual allowance of £50,000. The next PIP ends on the members advised date of retirement in the 2014-15 tax year and hence now subject to the annual allowance of £50,000 for the 2014-15 tax year.



2011 guide to growing your MONEY

The threat of inflation

Inflation or deflation, which is the biggest threat to the global economy? All the indications point to the importance of people in Great Britain taking the threat of inflation very seriously.

It is impossible to ignore the impact that inflation is having on our lives. Figures suggest the average UK household needs to find an extra £1,133 a year to maintain the standard of living two years ago.

Here are 8 areas to consider.

1) Cash squeeze

If you are a higher rate taxpayer the bad news is that it is now almost impossible to find a no-strings attached savings account to beat inflation.

Higher rate taxpayers need a pre-tax, gross rate of approximately 5.33% to preserve the value of their money. There are so few accounts doing that at present and those that do require at least 70 per cent of your money into an investment bond which will be investing in the stock market. Rising inflation is a great argument for investing in the stock market but there are better ways of doing it than through certain available bonds, and remember, it makes sense to keep your cash savings and stock market investments separate.

Basic rate taxpayers need only a 4 per cent interest rate to beat inflation. Unfortunately, the number of accounts offering that has fallen quite dramatically over recent months, with the best deals in three and five year bonds.

2) Locking in

Investing in the stock market can be scary, but to grow your wealth in real terms you have to do more than simply find the best savings account.

If you are prepared to lock up your money for five years to get a relatively modest interest rate then you are likely to see successful investing.

Investing is risky but so is leaving your money in cash where it will fall in value because inflation is higher than interest rates.

3) Consider shares

Despite the bad news we read about, such as Greece and Ireland, now could be a good time to invest. The experts suggest that in particular buying shares in big, stable, multinational companies is attractive. Not only are some of these shares undervalued and poised for growth when the market lifts up, but they could also return good dividends.

4) Emerging markets

Many investors have some investments in the emerging markets. The rise of the BRICs countries, Brazil, Russia, India and China has been well documented. Their stock markets, are generally extremely volatile, but have generated huge returns for investors over the years. However, these returns are not guaranteed for future years.

5) Bonds

How will bonds fare if inflation rises? Bonds have traditionally been seen as defensive, low-risk investments. However, as inflation rises that no longer holds true. Short-dated Government bonds (or gilts) look vulnerable, but there may be an argument for holding other types of bonds, particularly 'high yield' corporate bonds and emerging markets bonds.

6) Are index-linked bonds worth a punt?

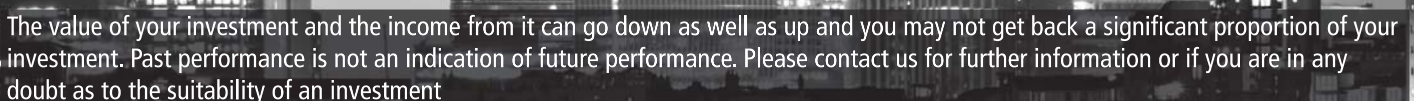
Index-linked bonds specifically offer protection against inflation and so have become popular with investors. However, they now appear to be expensive.

7) Commercial property

The property bubble burst in the credit crunch. Should it still be part of an investor's portfolio? The world is trying to repay its debts, and it seems this area has little value at the moment due to the fact that the enterprises in commercial property rely on borrowing.

8) Commodities

Gold has soared to very high amounts per ounce, and investors have turned to this known safe haven against inflation. Demand has prompted concerns of a speculative bubble in gold. However, with the world beset by currency wars it probably has further to go.



The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment

Fixed Income Risk In Your Portfolio

With interest rates at historical lows, some investors may be anxious about a possible rate climb and its potential impact on their fixed income investments, as rising interest rates typically cause existing bonds to lose value.

Rate movements in either direction affect portfolio returns. This is true in any market environment, regardless of the current interest rate. The larger question is how to manage the risk. As you read the financial headlines and evaluate your current fixed income exposure, it may be helpful to consider these principles about fixed income investing:

Interest rate movements are unpredictable.

Academic research offers strong evidence the bond market is efficient, and that bond prices and interest rates are not predictable over the short term. This uncertainty is reflected in the often contradictory interest rate forecasts offered by economists, analysts, and other market watchers.

Today's bond prices already reflect expectations for tomorrow's business conditions and inflation, and these expectations can change quickly in response to any new information. Investors who accept market efficiency should not be surprised when the credit markets foil the experts. If prices were easy to forecast, you should find a host of fixed income managers with market-beating returns, however, most of them underperform their respective benchmarks over longer time periods.

Since no one has a reliable method for determining whether interest rates will rise or fall in the near future, investors should avoid making fixed income decisions based on a forecast, media coverage, or their own hunches.

Investment strategy should drive fixed income decisions.

Investors may hold fixed income securities for a variety of reasons—for example, to reduce portfolio volatility, generate income, maintain liquidity, or pursue higher returns. Each objective may involve a different portfolio approach, or a combination of strategies to manage tradeoffs.

For example, investors who want to maximize current income may not be strongly concerned with the effects of short-term price volatility.

On the other hand, investors seeking long-term wealth appreciation may commit most of their portfolio to equities and keep their fixed income investments short term and high quality to buffer the volatility of stocks.

Regardless of your approach, you should understand the difference between controlling risk and avoiding it. You cannot eliminate risk, but you can manage your exposure by diversifying across maturities, industries, countries, and currencies to reduce the impact of rates, inflation, currency fluctuations, and other risks.

Many factors influence the direction of interest rates and performance in the bond markets, and these are too complex for anyone to reliably predict. Rather than placing your faith in the experts or reacting to economic news, manage your fixed income component from a portfolio perspective.

Your strategy should reflect your overall investment goals, risk tolerance, and other personal financial considerations. This is a solid approach to managing your portfolio in an uncertain interest rate market.

Plan for the Future

As university costs rise and Child Trust Funds disappear, we consider the options available to concerned parents

The idea that students will have to pay up to £9,000 per year in university tuition fees is sending shockwaves down the spines of many parents. However, these fees will start to be repaid once the student earns more than £21,000.

However, parents are going to have to save much more if they want to be able to help their children to avoid large debts at university, but just as parents are realising they need to save more for their children; the Government is abolishing the Child Trust Fund.

So what can parents do to build up a nest egg to help pay for their children's education? We set out some of the options.

Savings accounts

A very flexible way of putting money aside for your son or daughter is a conventional savings account. Many accounts are now intended specifically for youngsters and encourage regular saving with favourable rates of interest.

Parents could also consider Premium Bonds from the state-owned National Savings & Investments. Premium Bonds do not pay interest, though the chance of winning a tax-free prize each month is an exciting proposition.

Junior ISAs

Children can have their own cash ISA at age 16 or over, but they have to be 18 or over for a stocks and shares ISA. The Government though has announced an alternative for the Child Trust Fund, a tax-free savings plan called the Junior ISA.

This ISA is expected to have a similar cap and restrictions to the Child Trust Fund (CTF), but will not have the Government contribution and automatic enrolment of its predecessor.

A spokesman for the Treasury announced the new account would be available by autumn 2011, and would be backdated to ensure that no child born too late to get a CTF missed out on the new tax-free savings programme.

Approximately 5 million children in Britain have had CTFs opened for them since the initiative was launched in 2002. The current Government announced in May 2010 that it was abolishing the funds; children received vouchers at birth and on their seventh birthday for £250, with children from low income families receiving £500.

Existing CTFs will continue until maturity on the child's 18th birthday, and friends and family can continue to make contributions into those funds up to a maximum of £1,200 a year.

The new Junior ISA is expected to have limits and will also have similar restrictions to the CTFs, as the money will belong to the child and cannot be taken out until they become an adult. Similar to the CTF, parents will be able to choose either a cash or shares account and all returns will be tax-free.

Investment funds

There are a number of investment funds and products aimed at saving for children, but there are no products aimed specifically at saving for education cost, so parents should do their research before signing up.

Investment funds do not usually offer anything extra or special. They are mainstream products that are marketed as savings for children, but this is often just marketing to attract saving on behalf of children or grandchildren. Parents be warned, that while investment funds can be held on behalf of children, they cannot be owned directly until the child is 18 years old.

Tax

Every child has their own personal tax allowance and you can ensure that your child does not pay more tax than necessary on savings interest by completing an R85 form.

There are special rules to consider if parents give savings to their children, where gifts from a parent produce more than £100 a year in interest, the whole of that amount is taxed as the parent's income. This rule does not apply to financial gifts from anyone else, including grandparents.

Pensions

Pensions are a very tax-efficient way of saving for children, though they cannot access the fund until they are 55, so it cannot be used to cover the cost of education.

You can save up to a maximum of £3,600 a year into a pension for each child, and because basic-rate tax relief is added automatically, it will cost only £2,880 to make a £3,600 contribution. This means that a £100 contribution costs only £80.

If parents have spare cash, this is a good way to build up a retirement fund for their children as it will remain invested for a very long time.

Investing in a pension for a child can be done in any one of three ways: a stakeholder pension, personal pension or a self-invested personal pension (SIPP).

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment

Offshore Bonds Or Pensions?

If you are a high earner and you want to put money into a pension, the rules are changing to restrict the amount of tax relief, currently available to higher earners. The argument for an offshore bond has become a lot more compelling for high earners as many are reluctant to tie up money in pensions in return for comparatively little tax relief, therefore this could be why offshore bonds are becoming a retirement saving plan alternative.

Offshore bonds are an insurance "wrapper" around a portfolio of investments, which receive tax advantages by allowing you to defer the tax on the growth of the investments. Capital growth in an onshore bond is taxed at 20 per cent, whereas offshore bond capital grows tax free. The wrapper protects your assets from tax for as long as you hold it. Then when you cash in your assets, you pay tax on the accumulated gains. While basic-rate taxpayers have no more tax to pay when they cash in an onshore investment bond, higher-rate taxpayers must pay a further 20 per cent and top-rate taxpayers 30 per cent. With offshore bonds, there is no tax to pay until you encash the bond, when higher-rate taxpayers will pay the entire 40 per cent and top-rate payers liable for 50 per cent.

If you invested £100,000 in an onshore bond, you would have a lump sum of £155,000 after 10 years with a growth of 6 per cent a year, according to Barclays Wealth. If you invested the same in an offshore bond, a higher-rate taxpayer would have £196,000 at the end of the term, an extra £41,000 as gains would have rolled up gross. Also, bonds allow withdrawals of up to 5 per cent a year for up to 20 years with no immediate tax to pay. In effect, you are "rolling up" the tax, which could mean big savings for those who expect to move to a lower tax rate later in life.

However fund charges can be high, usually between 0.3 per cent to 1 per cent upfront, as well as around £400 or up to 0.25 per cent per year on top depending on how much you invest, and that is just on the wrapper alone. With adviser commission on top, this generally means the bonds are usually best for investments greater than £100,000 held for more than five years.

If you are looking for a pension alternative, offshore bonds are not necessarily the answer. If you invested £80,000 in the offshore bond, it would have a value of £231,086 in 20 years assuming a 5.5 per cent return and charges of 1 per cent a year. After basic-rate tax it would be worth £200,869, or £170,652 for a higher-rate taxpayer. You could withdraw an income of £16,242, or £13,180, by taking advantage of the 5 per cent rule. This income would last 20 years giving you approximately £4,000 per year, which may not be enough to manage on without cashing in the bond and taking the tax liability.

By comparison, a top-rate taxpayer who made an £80,000 pension investment grossed up to £100,000 (if eligible for basic-rate tax relief only), would have a £320,714 retirement pot. After taking 25 per cent tax-free cash at £80,178, there would be an annuity of £9,381 for a higher-rate taxpayer or £12,508 for a basic-rate taxpayer.

If the investor were to die at the age of 77 after taking an annuity each year for 12 years, the tax savings would be identical when using an offshore bond or a pension. However, the plus point for the offshore bond is that you will have been able to make the 5 per cent withdrawal at any time.

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Can You Beat the Market?

If markets are not efficient, then the brightest and hardest working fund managers should be able to beat a simple buy and-hold strategy over time. However, nearly forty years of academic research has shown that traditional investment managers are unable to outperform markets by anything more than the amount you might expect by chance.

A landmark study of professional managers was conducted in the US in 1968, by Michael Jensen, now of the Harvard Business School. Jensen analysed the performance of all US funds from 1945 to 1964. He documented that managers were not able to outperform the market in a statistically meaningful way.

In later years, a multitude of studies reached the same general conclusion: the average actively managed fund generally does no better than the market, after allowing for fees, transaction costs, and taxes. It should therefore come as no surprise that active managers generally fail to beat the markets. In fact for the managers to succeed consistently, markets must also fail consistently.

The idea that any single individual without any extra information or extra market power can beat the market is extraordinarily unlikely. Yet the market is full of people who think they can do it and full of other people who believe them. Why do people believe they can do the impossible? And why do other people believe them?

Daniel H. Kahneman, 2002 Nobel laureate in economics

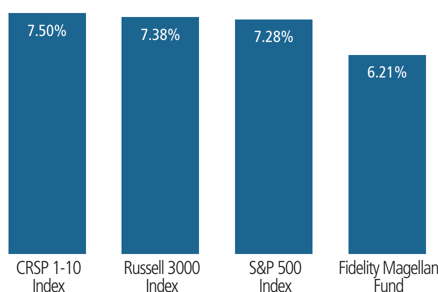
Before fees, the track records of traditional managers are similar to what would be expected from a room full of orangutans throwing darts at stock and bond listings. After fees, the expected distribution of results is better for the orangutans because they are assumed to work for bananas.

David Booth, Dimensional Fund Adviser - co-founder, "Index and Enhanced Index Funds," 2001

From a practical point of view, investors are probably better off if they just assume that markets are efficient. It will save them the distraction of wondering whether this fund manager is better than that one.

Rex Sinquefield, Dimensional Fund Adviser - co-founder, 1997

A famous Fidelity fund manager in the US, Peter Lynch, provides us with interesting anecdotal evidence. He retired in 1990 after serving as portfolio manager of Fidelity's Magellan fund for thirteen years. Following his retirement, for the period of June 1990 to December 2008, Magellan returns underperformed broad index returns.



Even if Lynch's success was due to skill, Magellan's later results suggest that such active management skill is not easily defined or passed along to others. It is only useful to you if you can identify who has it in advance.

Lynch had the power to choose a highly qualified successor and train him thoroughly. Even with this advantage, one of the greatest share-pickers of all time could not seem to identify a great share-picker in advance.

In the UK, Anthony Bolton managed Fidelity's Special Situations fund and delivered strong performance during his tenure from 1979 until his retirement in 2007. Thus far, his replacement has brought mixed results. Will Fidelity's choice prove to match Bolton's long-term performance?

Would your choice be able to do the same?

Navigating Structured Products

In recent years, structured products have become more popular among retail investors. Retail banks often promote these plans as sophisticated tools to help investors manage downside risk, enhance returns, or achieve other investment objectives.

Basic design: A structured product is a contract that promises to pay a future amount based on the performance of an underlying asset, such as a stock, market index, or commodity. The payoff is typically linked to a preset formula. Most structured products are designed to either preserve capital or enhance returns, and usually offer a specific payout over a designated period or at maturity. The final payout depends on the performance of the underlying asset as well as the value of the derivatives written on it.

One common product offers a minimum return equal to the original investment, plus a potential return tied to performance of an underlying asset, such as a stock market index. If the index drops during the term, the investor gets their money back, but if the index rises, they may receive the upside gain, but usually only a part of the underlying asset's gain.

The following summarises a few common characteristics of structured products:

Complex design: Most products have a complex design, which can make analysis of pricing, risk exposure, and potential outcomes more difficult. Some investors equate this complexity with higher potential returns, when, in fact, it may only mask high fees and risk. Worse yet, investors may not understand the range of possible outcomes. During the 2008 market crisis, some investors learned a hard lesson when the issuing firm went bankrupt or when their structured product experienced losses from poor performance of the underlying asset.

Substantial cost: These products tend to carry a significant markup and costs that in some cases are difficult to quantify, especially if an investor lacks the technical knowledge to analyse the underlying components of the strategy.

Tradeoffs: In return for receiving a prescribed payout, investors must accept a tradeoff in the form of a lower return and/or limited upside potential. When evaluating a structured payout, remember that there is no free lunch in the risk-return tradeoff. To pursue higher expected returns, you must accept more risk. If you do not want to bear the risk, you must transfer it to other investors and pay them for taking it.

Multiple Risks: First, there are the inherent risks of the underlying security (e.g., the stock or index). Investors also are exposed to credit risk of the issuing firm. The contract is an agreement with the issuer to make a pre-determined payment in the future, and thus, it is contingent on the firm being able to deliver. Liquidity risk is another issue. Although many structured products are listed and traded on exchanges, they may be difficult to sell, especially in a volatile market.

Tax considerations: It is also important to check tax consequences. Some instruments may have certain appeal under the current tax rules. But, often, tax consequences differ according to the investment situation

Who might benefit?

A structured product might help an investor who needs a specific payout at a designated point in the future and who is willing to pay another party to shoulder much of the uncertainty. But this benefit generally comes at the expense of lower yield or limited upside potential.

Investors who are considering a structured product should consider why they even need a highly structured payoff in the future and if so, whether the payoff can be structured by other means in the portfolio. In many cases, the strategy may be replicated at a lower cost, and perhaps with less risk. Many investors would prefer an alternative that is less complex and more transparent. And as the recent credit crisis taught many investors, it is wise to avoid investing in things you do not understand.

Structured products are often complex and complicated. You should seek professional advice if you are in any doubt about the potential risks and returns involved. You could lose some or all of the money you put in to these products, so make sure you understand the risks before investing.

Ethical savings

Investment into the mainstream

Ethical investing is moving rapidly into the mainstream, the growth of the market over the past 10 years has added more than 100 products, from ISAs, to unit trusts and pensions. They are now offering a responsible or sustainable element and have opened up the sector to those with small and large amounts to invest.

New figures from the Co-op show that the amount of cash invested in ethical financial products has had its biggest annual increase in 10 years, rising 34 per cent last year from £14.3bn to £19.2bn. This increase outstripped the mainstream finance market, which grew 15 per cent, over the same period. The report adds that the average UK household now has almost £750 invested in ethical funds and savings accounts.

Many professional financial advisers deal with green and ethical products, although many still had concerns about their performance relative to more mainstream investments.

Most people are looking for the best overall return for their investment with minimum risk. Funds that do not include Rolls-Royce, BP or BAE are difficult to recommend to someone who is risk averse and people generally still tend to go for income over ethics.

Equity bond performance is different for ethical funds in the short and medium term, but over the longer term, there is no performance cost, as income yields are broadly similar.

If you are a cautious investor, then ethically screened corporate bond funds may be for you. Screening includes an analysis of things like the effect an industry has on the environment, a company's track record on social and environmental issues and the geographic regions affected by the operation.

Some banks and building societies offering ethical cash ISAs use the money on deposit to fund socially and environmentally beneficial projects at home and across the world, such as investment in renewable energy schemes or sustainable housing.

Interest rates on these may not be a "best-buy", but they are not that so far off and anyone who wants to save ethically should consider choosing building societies, which, with their long historical links with the mutual movement, are preferable to high-street banks. Another product area that has seen a marked increase in ethical schemes is pensions. Many stakeholder pensions now offer ethical funds. Those with a higher than average income which are more comfortable with riskier investments, have the option to invest in a single company or sectors such as sustainable fuels or technologies, but you need to know the market inside out or be advised by those that do. There are some areas, such as a few interesting wind-farm co-operatives that will stand up to investigation in terms of liquidity, protection and risk levels but you need to be careful.

Experts expect it to continue to grow, as banks look to use a new-found ethical stance to win back the trust of customers which was damaged during the credit crunch. They also hope that if the Government follows through with its promise of a green investment bank, then a green ISA scheme to fund it may not be far behind.

Are you ready for retirement?

Plan and prepare

Changes to pension legislation could change the way you plan for your retirement.

As a result of the recession, the Governments spending review and advances in health care, the retirement picture is changing fast.

For people approaching retirement or thinking about when to retire, now is the time to indulge in some serious retirement planning.

SO WHAT ARE THE CHANGES?

The recent decision to change the state pension age faster than planned may not impact on everyone's retirement plans.

A change in the state pension age does not automatically mean a change for your retirement plan, but there are other changes that may affect the age at which you decide to retire, and how that retirement happens.

The Government has announced changes that will affect public sector pensions, making them less attractive. It has also announced a change in the pensions saving credit that will leave some pensioners worse off.

The default retirement age of 65 is being abolished from October 2011, extending peoples working lives.

The recession is also having an impact on people's pension funds. Due to stock market fluctuations they are generally worth less and the low-interest-rate environment combined with relatively high inflation has made it more difficult for pensioners to live on a fixed income.

COULD IT AFFECT YOU?

The Governments change to the state pension age is a start of a general trend toward people working longer and retiring later, for some by choice and others because they simply cannot afford to give up work.

Many people have been misled into thinking that just by saving more they will have an adequate pension pot, but the savings will still not be enough for many people. Employers are going to have to engage with gradual retirement.

People will need to consider retirement in two phases. The first is your prime-time retirement, before the age of 75, when you may still be able to work flexibly, while the second is your senior years, when you may need extra care.

WHAT TO DO?

The first step is to work out what you already have. You can get a state pension forecast from the Government, and you can also get a forecast for any occupational pensions you have.

Unless you have a final salary pension, you may need to buy an annuity with your pension pot. You can find out roughly how much your pension pot will buy you by using an online annuity calculator.

Many people are disappointed at the present annuity figures and it is felt that annuity rates will not be recovering any time soon.

MAKE A PLAN

Retirees should start planning their life in a different way and ask themselves, what would they do if they got to 66 and had another 25 years of life ahead of them. How will you occupy your time, maybe you want to travel or go on holiday in your retirement, but this will require funding.

With this in mind those approaching normal retirement age should begin a dialogue with their employers. People will need guidance, financial education, lifestyle planning and a pre-arranged agreement with their employer.

Most importantly, do not underestimate the amount that you need to have within a decent pension pot. A typical 35 year old will need to save approximately 32 per cent of their wage in order to receive a retirement income two thirds of their current salary at 65.

UNDERSTAND THE FINANCES

Seek professional financial advice and use all your options. You don't have to spend all of your pension pot on an annuity; you can mix it up and move it around.

Those choosing the annuity route should take note of what inflation could do to their income if they plan to buy a level annuity, where the income stays the same. However, inflation-linked annuities are generally more expensive.

To discuss how you can get the most out of your retirement planning, please contact us for further information

The ISA increase

Your allowance is set to rise

The Government have officially announced the news that ISA limits will rise by £480 from £10,200 to £10,680 in line with inflation. This new allowance for 2011/12 tax year is due to increase in line with September's retail price index of 4.6 per cent. This retail price indexation uplift will have the effect of adding £480 to the current £10,200 individual ISA limit.

Recent research from HSBC has suggested Britons are not saving enough and almost a third could and would not be able to survive for more than a week on their savings.

Research in October 2010 from HSBC has indicated that around 30 per cent of the UK population have less than £249 as a financial safety fund, which at today's rates is equivalent of five days average take home pay. Experts recommend that families should keep a financial fund of at least three months' take home pay or an average of £4,700 to cover the cost of bills and other emergency costs.

The research also uncovered that 20 per cent of all adults have no savings at all, with the 25 to 34 year old age group being the least prepared for a financial emergency. 41 per cent of people in this age group have less than £250 saved and 25 per cent have nothing at all.

Women are at a higher financial risk than men, as 33 per cent of women have less than £250 in savings, whilst just 26 per cent of men have less than this amount in savings.

Taking the UK as a whole, people in the North West are the least likely to have a financial cushion as 25 per cent had no financial safety net in place.

Such findings from the HSBC survey show a worrying trend and lack of preparation amongst UK residents. With the current climate of uncertainty, it is considered important that people set aside a realistic sum of money to be used in emergencies.

With this background in mind and with the increasing limits to ISA investments, savers should make full use of their tax free savings allowances.

A couple will be able to save jointly £21,360 per year in their ISAs and enjoy tax free returns. As taxes rise, savers and investors should ensure that they invest as much as they can in their ISA each year. It is thought over 42 per cent of the UK population is still not taking up their ISA allowance. ISAs are an efficient all year round tax perk and a way to avoid giving hard earned money straight back to the tax man, they are also a good vehicle to ensure a financial safety fund is in place for the future.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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