FACTS & FIGURES

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financial bulletin

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Women and pensions – time to get serious

The age at which people can start to take the state pension is changing and women are particularly affected. Until 5 April 2010, women were still able to receive a state pension at age 60, but a woman currently aged 45 now has to wait until she is 67 for her state pension.

Some studies show that women can be better money managers than men because they tend to be more conservative and do their homework. However, a recent Scottish Widows 'Women and Pensions' report (October 2013) stated "by the time they retire, 41% of women have realised they didn't prepare adequately compared with only 24% of men".

Status is immaterial

Single, separated, divorced and widowed women are in no different a position from a man when it comes to the need to provide for adequate income in later life. Any woman or man relying on state pension benefits alone will be in for a great disappointment.

Married women and those in civil partnerships or long-term relationships, may be relying on their partner's pension to provide for them as well. This ignores the possibility of their partner's death, or even divorce, separation or one of the many other potential major upheavals in life.

A divorced woman may now receive some pension benefit if her former spouse or civil partner had a pension. However, this is most unlikely to be anywhere near the real value of the income in retirement that she might have expected if they had stayed together.

Redundancy of a spouse or partner

Women planning for their future must contend with the possible redundancy of a spouse or partner, or the failure of their business. In such events, pension contributions naturally cease and any resulting pension would be very much reduced.

Tax savings

There are often sound reasons in many families for ensuring that both spouses have pensions. It is still common to encounter wives, for example, who have little or no income in retirement and are therefore not making full use of their personal allowance, under which currently the first £10,000 of their income is tax-free (subject to age allowance and reductions for high income levels).

A wife or partner who is able to produce a pension (including her state pension) of up to £10,000 a year, in present day values, will receive every penny. We are here to advise you should you need help with pension planning.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. The value of tax reliefs depends on your individual circumstances. Tax and pension laws can change.

Looking beyond student loans

The new academic year is underway – as is more student borrowing.

Quite how much each student can borrow towards tuition fees and maintenance depends on a variety of factors. Scottish students living in Scotland pay no fees and there are varying levels of fees elsewhere in the UK. Worst off are those students with English roots who in 2014/15 face borrowing:

- **Up to £9,000 to cover tuition fees.**
- **Up to £5,555 to cover living costs away from home (£7,751 if studying in London).**

It doesn't take a mathematics degree to calculate that a three year course could easily leave the newly job-hunting graduate over £40,000 in debt.

Once the course ends, the process of debt repayment begins. The rule for 2014/15 students is that repayment normally starts once earnings exceed £21,000 a year. Repayments are then at the rate of 9% on the excess, so a graduate with an initial salary of, say, £25,000 would pay £360 a year (9% x [£25,000 - £21,000]). That doesn't sound too bad until you consider:

- **The 9% is coming out of income that has already suffered 20% income tax and, probably, 12% national insurance contributions.**
- **Student loans are not interest-free, but carry inflation-linked interest that varies between RPI and RPI + 3%.**

The Institute for Fiscal Studies recently examined the likely repayment pattern for today's (English) students and estimated that:

- **The average graduate will start working life with debt of over £44,000 (in 2014 prices).**
- **Nearly 75% of graduates would not repay their debt by the end of 30 years after graduation, at which point the outstanding amount (average about £30,000) would be written off.**

If you have children (or grandchildren) at or planning to go to university, those numbers give serious cause for thought. If you want to help out financially, then the obvious courses of action – supplying funds to replace loans or paying off part or all of the debt – may simply be saving the Government money.

As a result, in terms of financial assistance you now need to think beyond the issue of loan repayment. Perhaps focus more on a flexible build up of capital for your graduate (grand) child, so that their student debt becomes less of a deadweight on their life plans. As with so much else involving children, the sooner you start planning, the better…

Investments that can improve the world

Ethical investing in the UK has been available since the 1960s. It has only generally been of interest to investors with serious concerns about such issues as the environment or the working conditions in developing countries. That's changed.

There is now an estimated £12.2b invested in UK green and ethical retail funds. While such funds tend to be referred to under the generic name of 'ethical funds' or 'socially responsible investments' there are differences that can be very important for particular investors.

- Ethical funds – Funds that call themselves 'ethical' or 'socially responsible' tend to apply negative standards when deciding which companies to invest in. For example, they may avoid investment in companies which are involved in the production of alcohol, tobacco and pornography, that supply armaments, or operate in countries with oppressive regimes.

- Green funds – These concentrate largely on what has become known as 'green consumerism'. In many green funds you will find stocks such as Marks & Spencer and Tesco because they sell organically grown vegetables and detergent that is said to be environmentally friendly. Many green funds are passive, investing in companies that they believe do not actually damage the environment 'too much'.

- Environmental funds – Funds that call themselves 'environmental' do not apply ethical criteria as such. Their main aim is to invest in companies with a significant involvement in improving or maintaining the quality of the environment.

A size issue

It is important for investors in ethical funds to realise that nearly all such funds are heavily invested into smaller companies. The screening process has tended to drive ethical funds away from large companies. However, when we speak of 'smaller companies' these are usually defined as those with a capitalisation of less than £200 million.

Anyone thinking of investing into an ethical fund should appreciate the impact that investing predominantly in smaller companies could have on the short-term performance of their investment. Such funds are predominantly suitable for growth investments rather than producing income.

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Tax, pensions, and politicians

As pension reform continues, there is a new protection option to consider, along with fresh threats to the future of tax relief.

Individual Protection, a new option to protect your pension benefits from tax, is now available. On 6 April 2014 the lifetime allowance, which effectively sets the normal maximum tax-efficient total value of your pension benefits, was cut to £1.25m. Individual Protection allows you to keep a lifetime allowance equal to the value of your pension benefits on the day before that reduction, subject to a maximum of £1.5m.

To be eligible to claim Individual Protection:

- Your pension benefits on 5 April 2014 must have had a total value exceeding £1.25m; and
- You must not have already chosen Primary Protection.

If you are eligible to claim Individual Protection, you should discuss the option with us before taking any action. An early start makes sense, as gathering the values of your pension benefits can be a slow process.

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The tax treatment of pensions

How pensions generally are taxed looks set to return after next year's general election. The current pensions minister, the Liberal Democrat Steve Webb, has called for tax relief on pension contributions to be at a flat rate of 30%, while the Labour Party is also talking about restricting tax relief to basic rate for some high earners. As yet the Conservatives have said nothing about future plans for tax relief. However, the Centre for Policy Studies (CPS), a think tank with links to the party, has proposed scrapping tax relief completely and replacing it with a Government top up of 50p per £1 of savings, up to a maximum of £8,000 of annual savings.

Contribution tax relief is one of the few remaining 'low hanging fruits' for politicians who are anxious to raise revenue with the minimum amount of public outcry. In other words, if you are planning to make a large pension contribution, it seems wise to consider doing so before the polls close. This is a complex area of retirement planning and you should seek financial advice so individual circumstances can be considered.

The value of tax reliefs depends on your individual circumstances. Tax and pension laws can change. The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Can you replace key workers?

One of the unexpected aspects of the UK's economic recovery is the speed with which unemployment has fallen.

The unemployment statistics have been one of the surprises of the past five years. Despite the depth of the recession, unemployment did not increase as much as most economists expected and when the recovery began, it fell rapidly. The latest data, for the three months to May 2014, show unemployment down at 6.5%, about a quarter below its 2011 peak.

What has been good news for employees may not be quite so welcome if you are an employer. It means that if you need to replace an employee you might find it more difficult than it was a couple of years ago. If the employee is a specialist or key to your business, the recruitment process could take more than six months. Then it might take some time for the new employee to make a full contribution to the business. That timeframe could have a serious impact on your profits and might prompt lenders to re-examine their borrowing terms for your business and your existing customers to look elsewhere.

Unfortunately there is no insurance cover you can generally buy to protect you from the employee who decides to leave. However, you can arrange insurance to cover involuntary departures as a result of illness or death. The cover, known as 'key person insurance', comes in a variety of forms. It is normally arranged as a policy set up and owned by the business, paying out on the key person's death and/or illness.

If the policy is a short term one covering loss of profits, the premiums will usually be an allowable business expense (and any payments will be correspondingly taxable). The employee will need to provide medical evidence, as with any other protection policies, but does not need to be told the level of cover being sought.

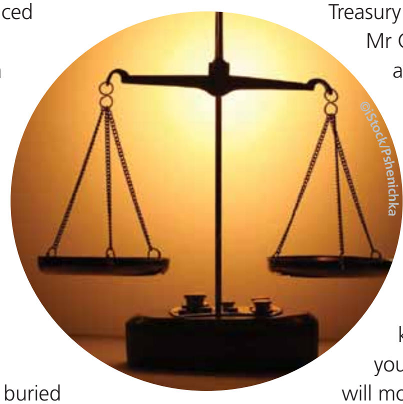
The cost of key person cover can be surprisingly little – a payment equal to a small percentage of the employee's gross pay could protect your business from the consequences of that shrinking unemployment percentage.

The value of tax reliefs depends on your business's circumstances. Tax laws can change.

The trials of economic forecasting

The Bank of England is finding forecasting difficult. Take the question: when will UK interest rates rise?

It is a question that has caused some difficulties for Mark Carney, Governor of the Bank of England and one of the people who sets interest rates. Shortly after he took up the role last summer, Mr Carney introduced 'forward guidance' to give businesses and individuals a steer on when the Bank would start to consider a rate increase. In August 2013 Mr Carney stated that an unemployment rate of 7% would be the trigger, a target he expected to be reached three years hence.



By February Mr Carney had buried that guidance, as it became clear a 7% unemployment rate was imminent. His replacement guidance was much vaguer and he deliberately avoided making himself beholden again to a single economic number. At the time, the Bank was implicitly forecasting an interest rate rise in spring 2015. In June the picture suddenly changed again when Mr Carney, speaking on the subject of increasing rates, said "It could happen sooner than markets currently expect."

One member of the House of Commons Treasury Select Committee compared Mr Carney's words to those of an "unreliable boyfriend" – one day hot, the next day cold. Mr Carney's real problem is that he has been attempting to make a series of short-term economic forecasts. There is a lesson here for all investors, however knowledgeable: if you think you can predict how markets will move in the near term, you are almost certainly deluding yourself. Far better to ignore the short term 'noise' and take a long term view. We can help.

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