

# ashwoodlaw

INDEPENDENT FINANCIAL ADVISERS

## MoneyMatters

September/October 2009

# Consider a pension transfer...

*Optimising your pots potential*

## Don't rush when choosing your annuity...

*Hunt out the  
best option*

## Does your portfolio reflect your needs...

Your asset allocation checklist

## Tax returns...

## The deadline dates draw closer

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**Tax returns...**

The deadline dates draw closer

**02****A guide to investment trusts...**

What are they &amp; how do they work?

**03****The Mortgage Maze...**

Choosing the right mortgage can make all the difference

**04****Responsible investing...**

The ethical options

**05****Consider a pension transfer...**

Optimising your pots potential

**06****Don't rush when choosing your annuity...**

Seek out the best option

**08****SIPPs the DIY pension...**

Can they deliver?

**09****Does your portfolio reflect your needs...**

Your asset allocation checklist

**10****Saving for future harvests...**

Ways in which Grandparents can contribute

**11****Short term income protection...**

The alternative insurance

**12****Need more information?****Simply complete and return the information request on****page 12**

# Tax returns

## *The deadline dates draw closer*

The majority of the working population have relatively straightforward tax affairs and already pay tax through PAYE (pay as you earn) so therefore do not need to complete a tax return. However, if you are one of the nine million people with more complicated tax affairs, or income from several sources – you may be required to complete one. Completing a self assessment tax return:

The first step is to decide whether you are required to complete and file a tax return. A tax return will usually be sent to you in April of each year (or a notice if you file online.) If you haven't already received a return, but think you need to file one, contact your tax office immediately as there are penalty implications for returning late or incorrect information.

There are different types of tax returns and different 'supplementary pages' you may need to complete depending on your circumstances. It is important to gather all necessary information required to enable you to do this, these may incorporate:

1. The SA100 and SA101 self assessment form, plus any applicable supplementary pages.
2. A P60 and P11D form from employers of pension providers.
3. Details of all extra sources of income; i.e. letting a property or your accounts if self employed.
4. Any interest statements.
5. Information on any dividend payments received.
6. Any capital gains/losses made in that year.
7. Life insurance policy payments or any gift aid contributions.
8. Any pension contributions made or received.

If you are filing a **paper** tax return, it must be sent back to HM Revenue and Customs (HMRC) by **31st October 2009** (or three months from the notice issue date, whichever is the later.) If you would prefer to file a tax return online, you have until the **31st January 2010** (or three months from the notice issue date, again, whichever is the later.) Please be aware that by filing a tax return late, you will be charged an automatic £100 penalty, plus interest on any tax owed.

You must also ensure your return is completed correctly and all relevant information has been provided, as by not doing so may cause HMRC to reject your return, which could lead you to miss the deadline and incur a penalty charge. A common mistake people make, although simple, is forgetting to sign and date their paper return – so ensure you are not one of them.

After completing your tax return, it is a requirement to keep all records relating to that return, for a period of 22 months from the end of that tax year, or for five years and ten months for those running a business or letting a property. Not doing so can result in a maximum penalty of £3,000 each tax year records have not been kept; it may be advisable to keep a photocopy of your return in case it goes missing in the post and/or for future reference. Therefore, as the deadline dates draw closer, ensuring you are well prepared, certainly could, make "tax less taxing."

*To discuss your financial planning requirements or to obtain further information, please contact us.*

# A guide to investment trusts

## What are they & how do they work?

Investment trusts are the grandees of the fund world. The first, Foreign & Colonial, which is still going strong, was formed in 1868 to give smaller investors access to the world's stock markets. The idea quickly spread and investment trusts played a vital role in funding the 19th-century expansion of America's railways.

There are now more than 440 investment trusts managing £97 billion of assets. Yet compared with unit trusts and OEICs (open-ended investment companies) they are relatively unknown.

### What is an investment trust?

A public company traded on the London Stock Exchange that invests in other companies' shares. Like any other company, they issue shares to raise money from shareholders. They then invest that money in a broad range of assets, including shares, bonds and property.

Some invest safely in the UK, others in foreign markets. Because investment trusts are companies, they have boards of directors and are also able to borrow money to invest.

### How do they operate?

An investment trust's share price depends, not only on the value of the assets in which it has invested - its net asset value (NAV) - but also on the demand for its shares. If more people want to buy than sell, this drives up the share price.

When the market price of the trust's shares is less than its NAV, it is said to be at a discount. If its share price is higher than the underlying stock market value of the trust, it is at a premium.

The discount is one of the main advantages of investment trusts, because it offers canny investors the chance to make extra profits. If you buy a trust when the discount is wide and sell when it narrows, you will boost your returns. Of course, if you get it wrong you lose out, hence some say that the discount makes investment trusts riskier.

### REITs: What are they?

Real-estate investment trusts (REITs) are a special type of fund introduced by the Government in January 2007 to allow more tax-efficiency for investors to hold property in their portfolios. They pool investors' assets in a portfolio of properties, usually shops, offices and warehouses.

Investors are able to reclaim tax that they would normally pay on dividends if they invest in a REIT via a pension or an ISA.

### How to buy investment trusts and REITs

You buy and get advice on these types shares in the same way as normal, by contacting your financial adviser or stockbroker. Alternatively, you can approach the fund management group that runs the scheme. Most of the larger investment trusts allow you to invest regular amounts or lump sums via an ISA.

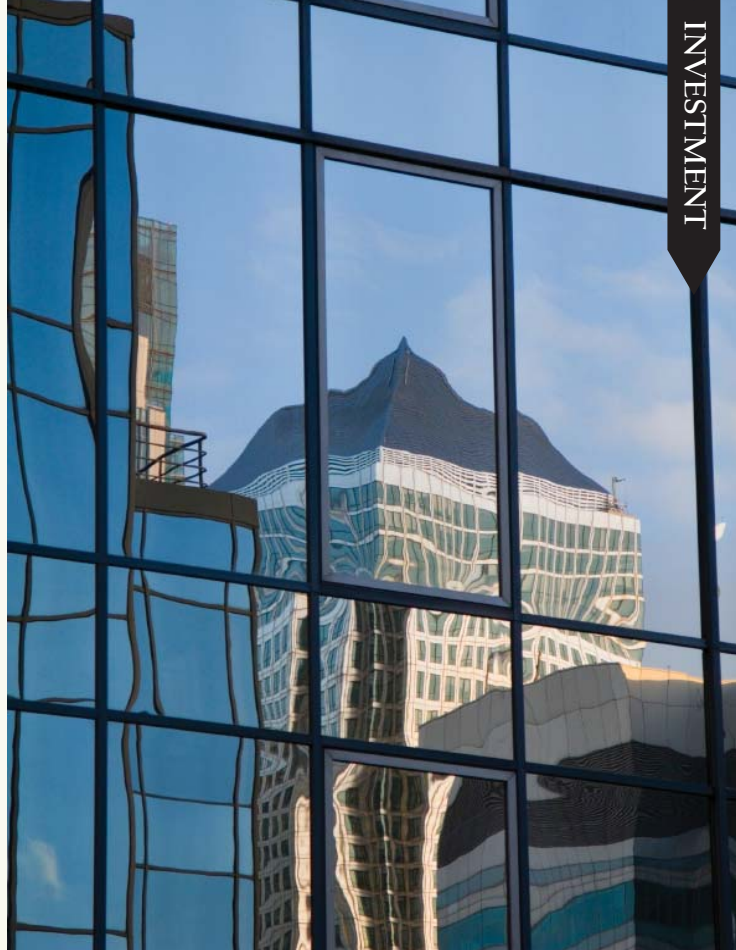
Are they expensive to purchase?

There is no initial charge, but you will pay a stockbroker's commission on buying and selling. If you use a low-cost broker, the charges will be relatively small. You have to pay stamp duty of 0.5 per cent on purchases and there will also be an annual management fee, however, overall charges tend to be lower than those on unit trusts.

### Do they differ from unit trusts?

Investment trusts can borrow money to buy more shares, while unit trusts cannot. This borrowing is often referred to as "gearing" and can help a trust to make money more quickly in a rising market.

However, gearing can be a problem in a falling market as it magnifies a trust's losses. Not all trusts use gearing and for those that do, the manager will only be able to borrow if the trust's board of directors agree.



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# The Mortgage Maze

Many people are losing money as they simply don't choose the right mortgage for their circumstances. With all the options of various mortgages available these days, which one really suits you? Many work in different ways from each other, there are fees for joining, penalties for leaving, discounts of choice and those that link and lock to the Bank of England base rate.

Here we explain what they are, how they compare, the advantages, the charges and what it means for you.

Types of Mortgages	How does it work?	Are there early repayment charges?	What does it mean for you?
<b>Standard variable rate</b>	Your payments move up or down at the lender's discretion. The lender may not reduce, or may delay reducing their variable rate even if the Bank of England rate goes down.	Not usually, but check and see.	<ul style="list-style-type: none"> <li>It moves with interest rates. So if the lender decides to increase the rate your monthly payments will increase.</li> <li>You're in control. You can usually pay back extra amounts (and cut your interest costs) without a penalty.</li> <li>The lender may not reduce, or may delay reducing, their variable rate even if the Bank of England rate goes down.</li> <li>It may be expensive compared to other deals.</li> <li>Usually you can leave your lender without any penalties or problems.</li> </ul>
<b>Tracker rate</b>	A variable rate loan with an interest rate that's equal to or a set amount above or below the Bank of England or some other base rate. It tracks (moves up or down with) that rate.	Sometimes during any special deal period and maybe even after the period too.	<ul style="list-style-type: none"> <li>It can pay to go for a tracker if you can afford to pay more when interest rates go up, in exchange for benefiting when they go down.</li> </ul>
<b>Discounted interest rate</b>	Your monthly payments can go up or down, but you get a discount on the lender's standard variable rate for a set period of time. At the end of the deal, you usually change over to the full standard variable rate.	Generally almost always during the special deal period. They can apply even after the end of the special deal period as well.	<ul style="list-style-type: none"> <li>It gives you a gentler start to your mortgage, at a time when money may well be tight. But you must be confident you can afford the payments when the discount ends.</li> <li>You may not be able to make overpayments and pay off the loan early without penalties</li> <li>The lender may not reduce, or may delay reducing their variable rate even if the Bank of England rate goes down.</li> <li>The discount period is limited, so don't get used to those early low repayments.</li> </ul>
<b>Fixed interest rate</b>	Your payments are set at a certain level for an agreed period. At the end of that period, they'll usually switch you to the standard variable rate.	Generally almost always during the special deal period. They can apply even after the end of the special deal period as well.	<ul style="list-style-type: none"> <li>If rates go down, you won't benefit. Your payments will stay at the higher rate.</li> <li>You may not be able to make overpayments and pay off the loan early without penalties.</li> <li>Your payments will stay the same in that period, even if interest rates go up.</li> <li>This gives you the security of knowing that you can afford your payments and will make it easier for you to budget.</li> </ul>
<b>Capped rate</b>	Your payments are variable and often linked to a base rate, but fixed not to go above a set level (the 'ceiling' or 'cap') during the period of the deal. At the end of the period, you are usually charged the lender's standard variable rate.	Generally almost always during the special deal period. They can apply even after the end of the special deal period as well.	<ul style="list-style-type: none"> <li>You know the maximum you will pay for a set period of time.</li> <li>Useful if you want the security of knowing that your payments can't rise above the set level, but still benefit if rates fall.</li> </ul>
<b>Collared rate</b>	May be used in conjunction with a capped rate or a tracker (or both). Your payments are variable but will not fall below a set level (the 'collar').	Not usually, unless it is used in conjunction with a capped rate or a special-deal tracker rate (or both). But check and see.	<ul style="list-style-type: none"> <li>It may be part of another interest-rate deal which otherwise appears attractive. But note that if the rate payable is only just above the 'collar' and you think rates will fall, you may not get the full benefit of a reduced payment.</li> </ul>

Please note this is not an exhaustive list of mortgages available and some of the mortgages may attract booking and arrangement fees.

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

Levels and bases of, and reliefs from, taxation are subject to change.

# Responsible investing

## *The ethical options*

Society's increasing awareness of environmental and social responsibilities is impacting on financial services. Investments, bank accounts, pensions and mortgages based on ethical principles are now available.

The theory is, companies making a positive contribution to the world, run less risk of rows with regulators, costly court actions, strikes, or boycotts of their products, all of which can have a bad effect on the share price. Environmentally aware firms should, therefore, have better long-term prospects.

The idea originated in the US, where church groups control billions of dollars and often did not want the money used to prop up repressive regimes.

### How to invest ethically

The best route to ethical investing is through managed unit trusts and OEICs. Because it can be difficult for you to judge whether a particular company is operating ethically or not, most ethical investments are held through managed funds.

These operate in the same way as conventional funds, they buy baskets of

shares in a chosen sector - but before they make the decision to invest in a company, an ethical fund manager will run checks on the company to find out if it has interests in a number of positive and negative criteria.

Positive criteria includes:

- Extensive involvement in conservation and recycling measures.
- Ethical employment practices, such as recognising trade unions and treating workers fairly.
- Specific environmental protection practices.
- Pollution control.

Negative criteria includes:

- Animal exploitation and testing.
- Environmentally damaging product practices.
- Involvement in armaments and nuclear weapons manufacture.
- Alcohol and tobacco promotion.
- Involvement in supporting oppressive regimes.
- Gambling.
- Pornography.

Making the rest of your finances ethical  
If you're interested in ethical banks and building societies, there are now quite a number which ethically screen their business and now offer energy-efficient

or 'green' mortgages, if you plan to renovate or make your home energy efficient.

Occupational pension schemes can now invest in ethical pensions and if you are not eligible to join a scheme you can always take out your own ethical personal pension. Where a provider doesn't specify an ethical fund, it's still worth checking if one is available as many stock market funds can be placed in a pension wrapper.

You could also move your car insurance to a provider with a track record of sound ethical policies. Providers include the Environmental Transport Association, which does not lobby for more roads.

### Where to find out more

The Ethical Investment Research Service (EIRIS), is a charity aiming to raise awareness of ethical investment. EIRIS does not offer financial advice but can provide details of shareholders campaigns. And, for a fee, EIRIS will screen your existing portfolio for positive and negative features and create a list of companies that match your chosen ethical criteria.

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# Consider a pension

## *Optimising your*



A big threat to efficient pension investing is the high charges applied by some providers. By reducing the amount of money going into the pension company and ensuring as much as possible goes into your fund, you could see a significant improvement in your future benefits.

So, when setting up a new pension, try to keep the costs to a minimum. If you have an outdated policy, think about transferring it into a low-cost scheme to help your savings grow more efficiently.

How you arrange a new pension or switch an existing one, and the time it takes, will vary depending on the provider but there are some general steps you can follow.

### 1. Penalty Charges

If you wish to transfer an existing pension, find out how much your current provider would charge you to move. Even if you have held money with a provider for many years and your funds have not performed well, you may still face penalties for transferring.

With-profits funds held with life companies, for example, might have transfer penalties and extra charges known as market value adjusters (MVAs) to make up for weak stock markets. Advisers say it is not uncommon to see these funds impose transfer penalties of as much as 10-20 per cent of the value.

### 2. Request a transfer valuation

A transfer valuation from your existing provider will give an up-to-date valuation of the funds held within the scheme and will

break down any transfer fees and other penalties to be deducted. You should also check whether you are giving up any other benefits, such as a guaranteed annuity option, which some older-style pensions offer.

### 3. Understand the new scheme

You will need to understand from an early stage the type of pension you wish to set up or transfer to, and which underlying funds you want to invest in.

# Pension transfer Your pots potential



Stakeholder pensions cap annual fees at 1 to 1.5 per cent but tend to have a limited investment choice. Some basic low-cost personal pensions may cost the same or less, and some may even have a SIPP (self invested personal pension) facility, although there may be additional charges for this. They offer a range of underlying funds and the annual cost depends on which you choose.

#### 4. Is it worth moving?

If you have long enough before you retire, it could still be worth

switching to a lower-cost pension even if you will have to pay large penalties to do so.

Ask your adviser to obtain a projection of your benefits at retirement if you were to remain in the same funds. Then your adviser will be able to provide a comparison based on your new funds.

#### 5. Your new pension application

Once you have decided which pension to open, the process should be straightforward. Some low-cost personal pension providers require you to go through an adviser, but others, let you apply online.

You will have to complete an application form, which will include details of any funds you want to transfer. The new company will contact your old provider to request the transfer. Your existing company will issue discharge forms that you will have to sign.

#### 6. Switching

Once your existing company has confirmation that you wish to transfer elsewhere, it should release the funds. Advisers say this process can be done in just a week or can drag on for months, depending on the provider.

You have very little control over the precise day when the switch will take place so, if you are concerned about market timing, you could ask for your funds to be moved into cash in advance.

#### 7. Transferred funds

Your funds will be deposited into your new scheme in cash and you will then have to move them into your chosen investments.

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

*Levels and bases of, and reliefs from, taxation are subject to change.*



# Don't rush when choosing your annuity

*It's one of the most important financial decisions people make, but few seek out the best option.*

These are not good times to retire with savings rates at historic lows. People relying on their pensions may have had nasty shocks as stock market falls resulting from the credit crunch and recession have eaten into retirement savings. There seems to be few positives, and this is especially true for those who have reached retirement and are looking to exchange their pension pot for an annuity, in effect an income for life.

Annuity rates, the amount of regular income savers can get for their savings have bombed of late, not least because of the Government's programme of quantitative easing. The process, which involved the Government buying back its own gilts, has led to a 50-year low in gilt yields. Insurance companies, which base their annuity pay rates on these gilts, have been cutting back.

With this in mind, the strategy must be to maximise your annuity returns for your pension pot. Unfortunately, people generally spend little time choosing their annuity and those that get it wrong, could pay dearly.

## How Annuities Work

Annuities essentially work by exchanging pension money for a secure income. An abundance of annuity types are available, but most advisers warn against taking out an annuity with your pension provider. Instead, it is best to take what is known as the "open market option" and scan the deals on offer from a variety of providers. The Financial Services Authority (FSA) says this can increase your income by as much as a third.

## A Conventional Annuity

A conventional, or level, annuity guarantees a fixed income until you die. This security comes at

a price, as the pension fund will not be passed on to the estate upon death. Couples may decide to take out a joint life annuity. Although single life annuities pay a higher level of income than joint life annuities, payments stop when the holder dies. A joint life annuity will continue to pay out for the remaining partner, but may be at a reduced rate. Please be aware that a level annuity will be eroded by inflation over time.

## Guarantee Period

Another annuity option that provides some protection is to add a guarantee period. This means that income payments will continue to be made to your estate for a set period of time, even if you die within that period. Without these additions, all income payments stop upon death and the insurance company reaps the benefits.

## Escalating Annuity

Individuals can also choose to arrange their annuities so that they receive an amount that grows year on year. These escalating annuities can be set to increase by a fixed amount, say, 3 per cent per year, or by the Retail Prices Index. However, inflation-linked annuities tend to be more expensive and start off paying a lower amount, typically between 30 and 40 per cent less.

## Enhanced Annuity

These are another way to maximise returns. They pay a higher rate of return for those with medical conditions or lifestyle conditions which might reduce life expectancy. For serious medical conditions, there are "impaired life annuities" which pay a considerably higher income for individuals with a low life expectancy.

## With profits

Income levels from a with-profits annuity are linked to the performance of the insurance company's with-profits fund. An individual who opts for a with-profits annuity product must set an anticipated bonus rate (ABR). This is then used to set the income level. Income is based on the providers' with-profits fund and so will either grow or fall depending on performance. As with all with-profits annuities, if the fund suffers, payments shrink.

## Investment Linked

Those willing to take chances can opt for an investment-linked or unit-linked annuity. These potentially offer better returns in the long run, but management charges can be hefty and the annuity income paid is based on the ups and downs of the stock market.

## Limited period Annuity

A limited period annuity may be a better option for those who wish to ride out the recession. These last five years, after which you can switch to a new annuity.

## Value Protected Annuity

Value protected annuities, (also known as capital protected annuities) are relatively new, and were introduced in April 2006. The aim of this value protection is to provide a return of any unpaid income in the event of death before age 75.

*Levels and bases of, and reliefs from, taxation are subject to change.*

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

# SIPPS the DIY pension

## ...Can they deliver?

At the moment, pensions seem to be on a losing streak. Hard-pressed employers are cutting back on providing retirement savings schemes for their staff, and the State pension age, set to rise to 68, could go even higher, according to soundings from senior figures in the City.

It's understandable that more investors are looking to take things into their own hands and get involved with their own retirement provision, rather than let employers, pension-fund managers or even the state take care of things. For those that want to take the plunge, a self-invested pension plan (SIPP) gives the holder control over how the pension is invested.

Nevertheless, SIPPs aren't for everyone. The idea of a SIPP, is that it's a do-it-yourself pension, it's one for people who want to take an interest in their pension and how it is invested. With a standard pension scheme through an employer or an insurance company there is the choice of a set amount of funds in which to invest pension contributions, chosen

by the provider. With a SIPP, the choice can be much bigger and more varied.

SIPP's are flexible, so should you wish to change where your money is invested or how much, you can simply transfer your funds using an online management tool or by directly contacting your independent financial adviser. With a personal pension, changing the way your money is invested can be laborious, so why not make full use of the services provided by your adviser.

Like other types of pension, contributions into a SIPP attract tax relief but in return there are restrictions on how you can use your pension pot. You will not pay tax on any growth your fund experiences, and you can withdraw up to one quarter of your fund in a lump sum without paying any tax.

Many SIPP providers offer the services of an adviser to guide you through the investment choices. However, SIPP providers do not offer advice, so it is imperative that you contact your adviser, who will be able to assist you. The flexibility of a SIPP also applies to the investments it contains. A SIPP can contain straightforward investments such as cash savings or government bonds. The next stage up is unit and investment trust funds.

Other options on the table are derivatives, traded endowment policies and shares in unquoted companies. In short, many investments, from low to high risk, can be included in a pension, but crucially not a second home or other residential property.

The more varied your investments within your SIPP the more you are likely to pay

in charges. In fact, one of the main drawbacks is the cost. Unlike stakeholder or personal pension schemes, a pensions provider will often charge set annual administration fees for each different type of investment within your SIPP.

Saying this, there are opportunities to save on scale, so the larger your fund, the smaller the percentage in fees you will pay.

Unless your pension pot totals £100,000 or more, you will probably end up paying a higher percentage of your fund in fees with a SIPP than you would with a personal or stakeholder pension. Many people don't have fund sizes suitable for self investment. According to HM Revenue & Customs, only 3.5 per cent of all the people in the UK with a personal or stakeholder pension have a fund of more than £100,000. So, even though SIPPs are a good idea, they're not for everybody.

There are billions of pounds across the pensions market that have been invested in mediocre funds which are at best stagnating. In fact, most pensions offered by insurers are sold on the basis of the tax relief rather than the potential return on the investment.

If you want to diversify into different markets, a SIPP will give you the facility to do this which a standard pension would not necessarily do. Within a SIPP you can make investments in the American market, emerging markets or the bonds markets, spreading your risk and exposing yourself, hopefully, to better returns. However, if ultimately you're not interested in running your own pension, then a SIPP isn't for you.

**If you would like to discuss your pension options please contact us for further information.**

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# Does your portfolio reflect your needs

Your overall asset allocation needs to reflect your future capital or income needs, the timescales before capital sums are required, or the level of income sought, and the amount of risk.

The more assets you can add to a portfolio using low-cost funds, the lower the volatility and the smoother the returns.

Here we show some typical asset allocations for different objectives, and examples of the fund holdings used to achieve them (for illustration purposes only).

## 1. Planning financial objectives

Financial planning objectives can include, paying for children's education or property deposits, providing additional pension income or meeting care fees and you may need to use different asset allocations at different times, to match these needs.

Building up a lump sum over 20 years will require a higher allocation to long-term growth investments, such as equities. However, providing income will require equities, high-yield bonds and gilts.

You have to know your objective, is it achieving a certain return, or matching a liability stream? Liability-driven investment is the same for an institution as it is for a private investor when it comes to university fees.

## 2. Decide your strategic allocation

A strategic asset allocation is the mix of assets to be held in a portfolio for the term of the investment, to achieve a target level of risk and return.

For example, a simple strategic allocation for a 20 year term might be 50 per cent equities, 25 per cent bonds, 15 per cent cash and 5 per cent in both commodities and hedge funds. But, depending on how actively you want to manage your portfolio, you can also use tactical asset allocations in the short term, to exploit temporary economic or market conditions and boost returns.

## 3. Add assets to build up your portfolio

If you already hold shares and equity funds, you can simply buy exposure to the other assets needed to achieve your target allocation, and geographical spread. By adding assets with low correlations to your existing holdings, such as bond funds and exchange traded commodities – you will reduce overall portfolio volatility and generate smoother returns.

## 4. Regularly monitor your allocation

An asset allocation may need to be changed over time, for two reasons: rises in the value of assets can increase the volatility of a portfolio, and age can reduce the risk tolerance of an investor – especially in the years before retirement.

To ensure higher-risk assets do not dominate a portfolio, make sure you rebalance your portfolio annually, or when any one asset rises in value by, say, 20 per cent.

## 5. Rebalance your assets

Rebalancing simply involves selling some assets that have risen in value and reinvesting the proceeds into those assets that have fallen below their target allocation. It is all about making sure your required percentages remain balanced amongst your investments.

## 6. Reduce volatility by 'lifestyling'

To ensure market volatility does not reduce your portfolio's value just before the money is needed, for example, to provide a lump sum, you should consider gradually moving out of higher-risk assets, such as equities, and into lower-risk assets, such as cash and government bonds, before the money is needed.

This process, is known as "lifestyling", and aims to reduce the volatility in a portfolio over a period of time.

For example, investors in their 30s can afford to hold more equities as they can ride out price fluctuations over time – but investors in their 50s cannot afford as much equity exposure as they have less time to recover from sharp falls.

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# Saving for future harvests



## *Grandparents today are being told that the financial future of their grandchildren is uncertain*

They face rising university fees, house prices out of reach, minimal interest on savings and shrinking pensions. Growing up and moving through adult life has never been so expensive, no wonder grandparents want to give a helping hand through savings and investments.

It is estimated that around 1.8 million grandparents are currently putting money aside for their grandchildren. But in a low-interest rate environment and with investment returns patchy at best, what options are available?

### **Savings accounts**

Savings for children are not automatically exempt from tax, and children have an annual personal allowance. For this year, that allowance is £6,475 and most children are unlikely to reach that limit, so parents can fill out an R85 form to ensure that interest is paid gross.

Several specialist children's savings products are available. Investing between a minimum and maximum monthly sum, withdrawals or missed payments will result in the interest being reduced.

Grandparents wanting to lock away a lump sum can opt for a bond for a fixed rate of interest over anything from six months to five years.

### **Child Trust Funds**

Children born after 1 September 2002 will already have a child trust fund (CTF) set up in their name. Grandparents, as well as any other relatives or friends, can jointly contribute up to £1,200 into a child's CTF each year, and any interest is tax free. Cash CTFs operate as a standard savings account, with no real risk and a steady, if minimal growth whereby Stakeholder accounts invest your child's money in shares in companies. The Government has made certain rules for these accounts to reduce the risk of investing in shares. The amount a child would receive from a shares and stakeholder account is dependent on the performance on shares and bonds. Stakeholder accounts are expected to withstand any stock market volatilities and offer much better returns than cash over such a long period of time.

One drawback with CTFs is the child gets control of the fund at age 18, where university fees or longer-term savings may not be a high priority.

### **Share based investments**

Shares cannot legally be owned by under 18s but grandparents can save on their behalf and identify their grandchild as a beneficiary, or hold the investment in trust

for the child until they reach adulthood. Shares and trusts are an ideal form of savings for the long term. Most provide the option of regular monthly saving and they're tax efficient as any profit is offset against the child's capital gains tax allowances, which is £10,100 this year or £5,050 if held in a trust.

### **Stakeholder pensions**

Grandparents can also set up a stakeholder pension and invest up to £2,880 a year on behalf of a child. The Government tops up the contribution with tax relief. The extremely long investment timescale means there is great potential for high levels of growth.

*“ Growing up and moving through adult life has never been so expensive ”*

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.

*Levels and bases of, and reliefs from, taxation are subject to change.*

# Short term Income Protection

## *The alternative insurance*

Redundancy, illness and accidents are all facts of life but they needn't ruin your finances.

We are all seeing the symptoms of recession with mass redundancies and increased stress, but few have the cash during these tough economic times to pay out for insurance that would protect from loss of income.

In response, insurers have introduced short-term income protection (IP) products that are more transparent than traditional short-term payment protection insurance (PPI) and mortgage payment protection insurance (MPPI) policies, but cheaper than the long-term IP policies. Could these be the solution for those on tight budgets? IP insurance is designed to pay out should illness prevent you from earning. The definition of income protection is a plan that will replace up to 60 per cent of your income, tax free, if you are off work because of things covered by the policy. It will cover you until you can go back to work or you retire. Short-term IP products are relatively new to the market and offer this same cover, simply for a shorter term; anything from 12 months to 10 years. Generally the average claim length for illness is only

three years. Despite the shorter terms on these products, their cover can protect you for the average claim length and will be cheaper than a standard IP product. Short-term IP products are often difficult to distinguish from accident, sickness and unemployment insurance (ASU), which encompasses payment protection insurance (PPI) and mortgage payment protection insurance (MPPI). These products have received bad press due to mis-selling but despite the shorter terms they shared, they have little else in common. PPI and MPPI are restrictive and can be difficult to claim on.

The main difference is ASU insures only one specific debt such as a mortgage or

personal loan, whereas IP is designed to ensure you have an income to meet all your financial needs and daily living expenses.

Another difference is the point at which the insurance is underwritten. ASU is underwritten at the point of claim, so when you claim the insurer will then assess if the claim is genuine. But with all income protection, you disclose everything at the point of sale. Unless you've deliberately lied, you know you've got a policy that will pay out, but with ASU, terms and conditions can change and you won't know if you'll get the cash.

With IP you also have the option of adding on involuntary unemployment cover for a higher premium. However, the unemployment add-on will only be for a fixed term.

The cost of short-term income protection insurance is based on your current salary, the length of the policy, the period of deferment and whether or not you want to be covered for unemployment. The longer the deferment, the cheaper the policy. Short-term IP products often offer a deferment period of 30 days.

*Levels and bases of, and reliefs from, taxation are subject to change.*

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.

- Financial wealth check
- Tax efficient investments
- Pensions
- Tax planning
- Critical Illness cover
- Protection
- Off-shore investments
- Health care
- Director and employee benefit schemes
- Other (please specify)

Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ Postcode \_\_\_\_\_  
 Tel. (home) \_\_\_\_\_ Tel. (work) \_\_\_\_\_  
 Mobile \_\_\_\_\_ Email \_\_\_\_\_

**Please return to:**

Ashwood Law, Ashwood Law House, Newton Road, Heather, Leicestershire LE67 2RD

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that personal information may be used to provide you with details and products or services in writing or by telephone or email.