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Your independent window on financial issues

### Chancellor's grim vision emphasised need for financial planning



Osborne's gloomy view from Westminster

George Osborne, Chancellor of the Exchequer, used his Autumn Statement in November to reaffirm the Coalition's commitment to an unforgiving austerity package that will see reduced Government spending throughout the life of this Parliament.

In line with this gloomy prospect, commentators have predicted that, in 2016, an average household will have less financial firepower than in 2006.

There was a crumb of comfort for consumers with the announcement that the planned rise in fuel duty, which was to have taken place this January, is to be delayed until August 2012.

#### Personal tax rates confirmed

There were no new announcements so far as personal tax is concerned. We have already been informed that the income tax personal allowance is to increase by £630 (to £8,105) for the 2012/13 tax year. And we also knew that the basic rate tax band will shrink by the same amount (from £35,000 to £34,370).

This means the earnings threshold for 40% tax will effectively stay at the same level as now (£42,475). No one should be pushed into the higher rate band by the change, though they might normally have expected some increase in headroom just in case they get a rise in 2012.

Anyone concerned about Capital Gains Tax may have been dismayed to see that the exempt amount in 2012/13 will remain at its current level of £10,600. However, changes to the Enterprise Investment Scheme may compensate for this. We can, of course, provide more information on how to manage your financial affairs so as to minimise your potential tax liability. Tax advice is not regulated by the Financial Services Authority.

#### Changes to State retirement age

The Chancellor announced that the Government is bringing forward one of the planned increases in the State pension age from 2032-34 to 2026-28. This may sound like the far distant future, but for anyone aged 51 or under, it means they will have to wait until they are 67 before they can get their State pension.

Changes such as these are being made because of increased longevity, which means individuals are claiming the State pension for longer. Shifts in the UK's demographics also mean that the number of retired people is growing relative to the working, tax-paying population, increasing the strain on the national finances.

This also highlights the importance of making worthwhile private provision for your retirement.

As ever, we are here to help you with any aspect of your tax planning or financial affairs. In times such as these, our expert, independent advice is more valuable than ever.

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## Ethical investments grow in popularity

Growing numbers of people are seeking out ethical investment opportunities. There is clearly a healthy appetite for investments that either avoid controversial industries such as tobacco and armaments or actively pursue sectors that make a positive contribution to human and environmental wellbeing, such as pharmaceuticals and renewable energy.



Going green?

According to the industry research house, Ethical Investment Research Service (EIRIS), the amount of money invested by the UK public in so-called green and ethical funds reached a record high of £11.3 billion in October 2011. There are some 750,000 private ethical investors, up from around 250,000 in 2001.

This suggests that more and more of us are simply not satisfied just with putting our money into a fund and watching the performance charts. We want to know our money is being put to good use - or at least not being put to bad use.

Green and ethical investment is sometimes referred to as "socially responsible investment" (SRI). As investment advisers, we can guide you through the many opportunities to invest in a way that supports your preferences and avoids areas of which you disapprove.

### Combining principles and the pursuit of profit

Maintaining your principles doesn't mean you have to sacrifice investment potential. There are plenty of funds to choose from that will align with your interests and objectives while offering the prospect of a decent return. Indeed, it is possible to argue that many green and ethical investment opportunities - renewable energy is a case in point - have an exciting future thanks to growing demand and Government involvement.

### The mechanics of ethical investment

Ethical fund managers build their portfolios by screening the shares in which they invest. They will maintain a list of criteria that enables them to weed out those shares that are unacceptable and identify those that tick the right boxes.

Another aspect of socially responsible investment is that, as the

shareholder in a particular firm, the fund can seek to improve and influence its behaviour on green and ethical issues - and even on the current hot potato of employee remuneration.

You'll find that many fund managers in the SRI sector also maintain an active dialogue with their investors, keeping them informed of what they are trying to achieve, and also taking soundings on what direction the investors would like the fund to take.

There are more than 90 ethical funds. These are accessible through many types of investment vehicles, including ISAs, unit trusts, investment trusts and OEICs (open-ended investment companies). We can also help you access ethical bonds, pensions and even mortgages.

## Devising a strategy to maximise income

With the returns on cash deposits so low at present, and with inflation so worryingly high, many people are searching for a way to squeeze more income from their investments and savings. As your adviser, we're in the ideal position to tell you about income-generating opportunities.



Is now the time to squeeze a little more from your investments?

There are a few key points to consider:

- Are your cash deposits working hard enough? We all need to maintain an amount of cash as a rainy-day fund - generally considered to be sufficient to cover three to six months' normal outgoings - so it is essential to find the accounts that pay the best rates and offer the best terms and conditions.
- You will usually find that, the better the rate, the less flexible the account as far as access to your money is concerned. You may also be required to maintain a minimum balance.
- You should consider using your cash ISA allowance (up to £5,340 in tax year 2011/12, up to £5,640 in 2012/13) to avoid paying tax on your savings.

- Bonds such as those available from National Savings (ns&i) can offer very attractive returns, although you may have to tie-up your money for a lengthy period. There are also limits on how much you can put in. Premium Bonds are also attractive to many people. They do not pay a regular income, but there is the prospect of scooping a big prize. The maximum you can hold in Premium Bonds is £30,000.
- If you are tempted by income-yielding investments (as opposed to simple savings) and these are compatible with your attitude to risk, you should consider using your ISA allowance. You can invest up to £10,680 in a 2011/12 stocks and shares ISA. If you have a cash ISA as mentioned above, you can use the amount beyond your cash holding up to £10,680 in your stocks and shares version. The total ISA allowance for 2012/13 will be £11,280.
- There are many income-oriented investment funds from which to choose. These tend to invest in the shares of companies that traditionally pay high dividends, at current share prices equivalent to around 5%. The net "yield" is then passed onto you as a fundholder, unless you ask for it to be reinvested.
- You can also consider bond funds. These invest in corporate and Government bonds, which are issued as a way of raising capital. The quality of bonds can vary widely in that there may be some risk of the issuing company (or even a government) defaulting and not paying either the interest due on the bond or repaying the capital itself. That said, the riskier bonds pay higher rates of interest.

We can talk you through what's available and help you allocate your funds in the most efficient and effective way.

## Exercise the Open Market Option at retirement

**Anyone approaching retirement has important decisions to make about their finances that can affect the rest of their life. Expert independent advice is vital at this time.**

At retirement, unless you are in a final salary (defined benefit) plan, you can use your accumulated pension savings to buy an annuity, which in turn will provide an income until your death (and then, in some cases, to your spouse if he or she outlives you).

If you wish, you can take up to 25 per cent of your fund as a tax-free cash lump sum with the remainder of the pension fund being used to purchase an annuity, although depending on the type of plan you have, this is not required.

Where an annuity is purchased many people assume they need to buy this from the same insurance company that has managed their pension investment over the years. But this isn't the case.



**Consider your options if you want a smooth retirement**

The Open Market Option (OMO) exists precisely to allow people to shop around to find the best annuity.

In the past, insurance companies have kept quiet about the OMO because they wanted to keep hold of the business. A common tactic was to send an annuity application form to people approaching retirement in the hope they would simply roll their pension savings into an annuity with the same firm.

The industry's trade body, the Association of British Insurers, is introducing a code of conduct that will prevent its members sending the application form and oblige them to tell their customers about their right to shop around.

### Finding the best annuity

It is at this point that you need to get independent advice. Different insurance companies offer different annuity rates, which can make a substantial difference to your income. What's more, there are different types of annuity on offer, so you need help to ensure you get the best one for your circumstances.

Expert advice is crucial because the annuity rates currently on offer are at an all-time low. In 1990, a 65-year-old man could expect to get an annuity rate of 15 per cent, meaning every £10,000 of pension pot would generate £1,500 of income each year. Now the annuity rate is nearer 6 per cent, producing just £600 for every £10,000 of pension pot.

Various factors account for this fall. For a start, we're enjoying increased life expectancy, which means the annuity providers have to budget to pay out for longer.

Some providers actually offer higher 'impaired life' rates if someone has a known medical condition likely to shorten their life or is, for example, a smoker.

If you look at today's dismal annuity rates you might be tempted to wait for things to improve - and you can indeed defer your annuity purchase. But this is a delicate decision. After all, rates could fall even further. And what will you do for income in the interim? Again, you need to talk to your adviser.

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

Whilst the final quarter of the year saw the FTSE100 gain 8.6%, ending the period at 5,572, it also recorded a loss over the year of 5.5%. This reflected the underlying flight from risk by investors as the Eurozone debt crisis remained unresolved with a distinct lack of political or fiscal action being observed.

The mid-cap FTSE250 saw an improvement of 2.8% over the last quarter, ending the year at 10,102.9. Although just like its big brother, the FTSE100, the junior index managed to record an annual loss of 12.6%, as the switch to safety continued within the global investment markets.

On the foreign exchanges, sterling (like the greenback) gained through its safe-haven status, ending the quarter unchanged against the US Dollar at \$1.56. Against the Euro, however, it saw an improvement of 2.5% ending December at €1.19. Investors being wary of the possible downgrading of some European countries credit ratings.

Commodity prices reflected the downbeat global economic forecasts, with Oil (Brent Crude) at \$107.38, up a marginal 3.2%. Gold remained stubbornly below \$1,600 an ounce, ending the year at \$1,531, down 5.8% on the quarter, but still 8% up on the year. This is \$390 short of its all-time high of \$1,921 reached in September.

## Investor anxiety triggers flight to gold

**Fluctuating stock markets have made many investors nervous. And, as many of the fluctuations in price have been downwards in recent months, there has been growing interest in alternative investments such as gold.**

Gold is traditionally seen as a "safe haven" investment opportunity. That does not mean it is in any way guaranteed to retain, let alone increase, its value. But demand usually rises during times of widespread economic turmoil, and high demand means a higher price.

Disillusionment with the stock market, rising inflation and low interest rates on cash deposits have increased demand for gold and pushed the price to record highs of above \$1,800 per ounce, from which it later eased back.

It is worth repeating that gold comes with no guarantees attached as to its future investment performance. And, as it is priced in US dollars, there is a built-in currency risk: if the dollar strengthens, the price of gold declines, and the \$/£ exchange rate impacts the sterling value. However, in today's climate, gold is certainly an option for investors to consider.

### Gaining exposure to gold

One problem faced by many private investors is how to participate in the fortunes of gold. Buying the metal itself - usually in the form of coins - raises security issues. But if you don't want to keep the bullion in your house, you have the hassle and expense of finding a suitable bank vault.

An alternative to holding gold itself is to invest in funds associated with it. For example, some funds invest primarily in the shares of gold mining companies. Other funds invest in a range of commodities, including gold. This spreads the risk while still offering some exposure to gold-related investment.

One of the attractions of holding units in a fund rather than gold itself is that the former can provide an income. Although major bullion market players may lend gold at interest, there's generally no yield on metal, regardless of how attractive it might be.

### Identifying a suitable fund

As financial advisers, we are ideally placed to talk to you about the merits and possible downsides of investing in gold. So if you think your portfolio would benefit from a little extra lustre, give us a call.



Is gold an attractive option?

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

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.