



Thomas & Co Financial Services

INDEPENDENT FINANCIAL ADVISERS

# MoneyMatters

Summer 2015

Commercial  
PROPERTY

How to invest  
£100,000

Auto Enrollment  
*threshold*

Give your children  
the best start  
IN LIFE

Life  
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What happens to your pension  
WHEN YOU DIE?

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- 

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## 20 years ago this summer, Drawdown, the main alternative to an Annuity at retirement, was introduced.



Below we look at how drawdown has become progressively more flexible and how investors can now take advantage as it enters its third decade. In the last year alone, the number of people choosing drawdown has more than doubled.

### What is drawdown?

Drawdown was first introduced in the summer of 1995. Initially, it was the preserve of a minority of wealthy pension investors. Plans were expensive as it was a niche offering and advisers and pension companies were able to apply high charges for their services. A set up charge of 3% of the total fund was not unusual (which would mean £7,500 on a fund of £250,000). Self-Invested Personal Pensions (SIPPs) were in their infancy and low-cost SIPPs did not yet exist.

Over its lifetime, a new breed of drawdown has emerged with lower charges, greater flexibility and more tax breaks for passing pensions on when you die.

After taking tax-free cash, which is usually up to 25% of the pension, drawdown allows you to draw income directly from the fund, which remains invested and subject to the ups and downs of the stock market. The income can be varied to suit your requirements.

Thanks to the advent of low cost SIPPs, the cost of pension investing has come down significantly.

### How is drawdown more flexible? What are the risks?

Investors can now start and manage their own drawdown plan for themselves if they are happy to make their own investment decisions. Today managing a pension in drawdown can be as easy and convenient as other investments.

You don't need to take any income at all if you wish, and can instead take only the tax free cash and leave the rest to grow. Income can be stopped, started, or varied as required.

However drawdown is not secure and despite the greater appeal it remains a higher risk option than a secure annuity, which will pay an income for life.

It's important to remember investment returns aren't guaranteed. Keeping your pension invested means it could fall as well as rise in value. If you take too much out, you live longer than expected or your investments perform poorly you could run out of money.

**The value of pension and the income they produce can fall as well as rise. You may get back less than you invested.**

**The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.**

## The 'official' way to make your pension cash last

### Government-backed pension scheme NEST has set out its 'post-annuity' approach to managing savings through retirement

Government backed pension provider NEST, the National Employment Savings Trust, has outlined radical proposals that will give savers using the scheme low-cost, flexible access to their pension cash.

It has also outlined an "automatic" process by which all savers, on reaching a series of age triggers, will be channelled into investments that both safeguard their cash to provide future income and enable savers to spend it as needed.

The plans, published recently, go some way to pave the way for NEST to become a benchmark in low-cost, flexible pension access, currently being denied to many.

Also, NEST's proposals offer a solution to the problems posed by "lifestyle" funds. As was reported these funds, which hold

billions of pounds of pensioners' savings, were built for savers who would buy annuities on fixed retirement dates, rather than, as now, a flexible retirement where cash can be

drawn or invested as savers wish. As a result of this, many such funds are exposing savers to unnecessary market risk.

NEST's research concluded that once savers finally did retire, their money should be managed in three phases linked directly to their age.

Its proposed solutions take into account factors including longer working lives, and assume most savers will have a 30 year long retirement.

NEST came into being as part of the introduction of "automatic enrolment" into workplace pensions, a policy partly based on Australian experience.

### How will it affect my retirement?

The first phase envisaged by NEST is "early retirement", spanning the decade between someone's mid-60s and early 70s.

At this stage most savers don't really know what kind of income they need from their retirement pots now or in the future. So it doesn't make sense for them to lock their money up in a guaranteed income, such as an annuity. A flexible approach will suit most people best.

As a result, NEST's default options would see the money left invested. The portfolio would be designed primarily to protect savers' money from inflation, so the majority initially would be in shares and commercial property. But there would be two crucial additional features to this stage.

Around 10 per cent of savers' pension pot would be kept in cash as an "emergency fund" which could be accessed instantly, at little or no cost to the saver.

Secondly, a small portion of the money should be saved in a separate pot, building up a reserve which in future years can be used to provide an income.

In the second phase, when someone is in their mid-70s to early 80s, savers would continue to take a flexible income from their invested capital. But NEST recommends that the money that has been set aside for later life income should now be "locked in" to stop savers dipping into it. This provides a greater degree of security and certainty that an income will be paid for the remainder of an individual's life.

And in the final phase, when savers reach their mid-80s and for those who live into their 90s, their money would be converted into an income stream for life through the purchase of an annuity.

NEST's research found that buying an annuity in your 80s offers better value for money than buying one in your 60s. It also found that savers in their 80s no longer wanted to take investment risk and therefore preferred the certainty of an annuity.

Until recently buying an annuity has been the default option for millions of over 55s but in April the Government introduced new flexibilities which, in theory, mean savers are no longer forced into buying a guaranteed income. Instead, they now have unfettered access to their money as well as a wider range of options to keep their cash invested to save or spend as they like.

NEST's vision is to create a simple, hassle-free path to pension freedom for every saver.



# Life, income & health

If we insure ourselves in our car, why don't we carry the same protection for our lives when we are not in them?

It's not nice to think about personal injury or indeed death, but insurance can provide welcome protection at the most important time, however working out which type you need and can afford can be tricky.

## Income Protection

Income Protection (IP) insurance will pay you a regular income if you are unable to work because of an accident or illness.

Normally, IP policies pay between half and two-thirds of your income until you return to work, reach retirement age or die. Cheaper, shorter-term policies are available, that pay out for a set period, which is typically one or two years.

How long you will have to wait to receive your payout will depend on your policy; generally the longer you wait, the cheaper it is.

## What to look out for

Ensure you study the details of a policy before you sign up, because different providers have different definitions of being unable to work.

Ask your employer if they offer any kind of income protection-type benefit, which might make buying your own policy unnecessary. Remember that income protection insurance is particularly useful for freelance or self-employed workers.

Check whether your policy covers self-employed occupations, or if it is based on your ability to do a 'suited occupation', a similar role but not necessarily the one you're currently in.

More generic policies will be list-based in definition, typically a list of six tasks, such as lifting a pen and getting

dressed; the claimant would have to be unable to do three of them to be classified as unable to work.

## Life Assurance

Life cover actually pays out a lump sum upon your death.

There are different types of life assurance: 'set term' which will for a pre-determined period, or 'whole of life' which continues until you die, providing you pay your premiums.

Whole of life cover can be taken on an income basis too, so that when you die your family will receive a monthly amount rather than one lump sum.

## What to look out for

You should put your policy in trust, which sounds complicated but in reality it's just like filling in a form, and it means the money

passes quickly to the right people in the event of your death.

Single policies are preferable to joint plans, as the cost is invariably the same and yet they offer double protection because there will be a payout on each person's death, rather than just upon the death of the second spouse. Index-linking your policy is also worth considering: the price of your premium will rise slightly each year but so will the level of your cover.

## Critical Illness Cover

This type of insurance policy pays out a lump sum in the event that you are diagnosed with one of a specified set of illnesses and conditions set out in the policy. Typically such policies cover around 30 to 40 conditions, ranging from heart attacks and cancers to less common illnesses.

## What to look out for

Most critical illness policies are bought alongside life cover. Some people might be put off by Critical Illness Cover (CIC) as it tends to be more expensive than life assurance, but there is a reason for that: you're much more likely to use it.

Insurers have a waiting period of usually 21 days written into the policy, which means that if the policyholder passes away during that time, it is treated as a death claim rather than a critical illness claim.

# Commercial property

We all know Britain is a nation of property lovers. But what do we know about buying and investing in commercial property? In 2008, commercial property prices fell by an unprecedented 44 per cent almost overnight when the US sub-prime mortgage crisis hit and it's only recently that we see prices outside of London starting to regain their lost ground.

Since the banking crisis in 2007, the market has gradually regained confidence and is becoming an increasingly attractive investment again.

Experts point out that while the price of property, in such as London, have mostly recovered, but there could still be value in the other outer areas, with good potential rental incomes and capital growth.

The commercial property market consists of shops, industrial buildings, warehouses and offices. You can typically invest directly by investing in a fund which holds actual physical property in its portfolio or by buying a property yourself, or indirectly by investing in funds exposed to property companies, developers and house builders, for example a Real Estate Investment Trust (REIT).

'Direct' property investment funds or trusts buy these units, whether new or existing and rent them out to other businesses on long leases, making a profit from the rental income as well as capital growth in the price of the property. This makes them popular with income seekers, as rental income typically rises in line with inflation.

Many investors invest in commercial property via a collective investment scheme. Property funds on the whole are a cheap and easy way to gain exposure to commercial property as an asset class.

Investment funds and trusts providing entry into this commercial sector are divided into two types. A traditional bricks and mortar fund will invest in the property directly and is structured as an open-ended fund or a closed-end investment trust. This fund will physically buy the property and be responsible for its maintenance and rent collection as well as having the added benefit of a regular rental income. However, as offices and warehouses are not easily bought or sold, the liquidity can be very slow. The second type is a property securities fund which invests in the shares of listed property companies and therefore is much more liquid, but is exposed to the ups and downs of the stock market.

Investors can also buy shares directly in a REIT (Real Estate Investment Trust), which runs a portfolio of properties, although this is a far less diverse way to invest as it's just one company. Those with plenty of capital can also buy a property outright and lease it back to companies themselves, although this is without question a labour and capital-intensive, not to mention risky, way to gain access to the sector.

## What to look out for

A large risk in the commercial property sector is finding tenants for empty buildings and recently we have seen the market split into two categories of property in good-quality locations, which continues to be investable and those properties in poorer, secondary locations that are often un-fundable and provide a poor return.

Property investors should be wary of three key areas: volatility, diversification and liquidity. On the upside, property funds can be less volatile than those focused on other assets, but direct property funds in particular are much less liquid because you are selling an actual property. It can be especially hard to sell when the property market is in decline. Also note that open-ended funds are particularly sticky because the fund manager has to cash in units, meaning selling property. Closed ended funds like investment trusts are more liquid because you just need to sell the shares in the trust, not the underlying assets.

Investors should ensure they take a well-diversified approach, by having a good spread of properties across retail, office and industrial.

The main disadvantage of commercial property is that the location and management of the property is 'everything'. Get this wrong and commercial property can be unforgiving. It's also worth remembering that commercial property funds can be slightly more expensive than funds invested in other assets.

## Never think it won't happen to me

Research suggests protection products are some of the hardest for customers to understand, but it's important to understand that although these policies sound similar to each other, they insure against different life events and thus their suitability will depend on personal circumstances.

Before taking out any form of protection it is important to decide what type of cover you want and how much cover you will need, to ensure you don't end up under or over-insured.

Ideally you should review your policies regularly to ensure they are appropriate for today and that they cover you to an acceptable level.



# What happens to your pension when you die?

We all want to know ‘What happens to my pension when I die?’ Here we explain and look at the options available including the new tax breaks for passing pensions on to loved ones. How pensions are treated on death will vary according to an individual’s circumstances

## When you build your pension

If you die before you reach the age of 75, the remaining pension can normally be taken as a lump sum or as income, with both options normally being paid out tax free.

The new rules now have in effect become the ‘family tree’ of pensions, which make it possible for more people to pass pension wealth on tax efficiently to loved ones. They open up the concept of a “pension family tree”.

If you die after age 75, the remaining fund can still be paid out as a lump sum, but taxed at 45%, or used to provide an income, taxed at the beneficiary’s rate of income tax. Lump sum payments paid after 6 April 2016 will be taxed as the beneficiary’s income instead of at 45%.

This is a very important difference from the rules that applied prior to 6 April 2015, when lump sums after age 75 were subject to a tax charge of 55% and fewer people were eligible to receive benefits as a pension income.

## When you are actually drawing your pension

You can normally start to draw your pension from age 55 (rising to 57 in 2028) and the age you choose to do this is your decision. For those who don’t need a secure income from their entire fund, there are a couple of options that allow them to draw directly from the fund.

Drawdown allows you to keep control of your pension, usually taking up to 25% tax free cash up front and a variable, taxable income from the remainder.

More recently there is a second option known as UFPLS (Uncrystallised Funds Pension Lump Sum). This new option allows you to draw a lump sum directly, 25% of which should be tax free, and the balance taxable.

Both options leave the remaining fund invested and you have a say over what happens to it when you die. Flexible, drawdown and UFPLSs are not suitable for everyone. Income is not secure and poor investment performance and excessive income withdrawals can deplete the fund which may leave you short of income as you move through retirement.

Under both options, when you die your beneficiaries have the following choices:

1. Take the remaining fund as a lump sum
2. Continue in drawdown
3. Buy a lifetime annuity.

The new rules provide significant new tax breaks on death, which mean in some cases the pension can be passed on tax free. Lump sums paid under the old pension rules were subject to a tax charge of 55%, and income payments were taxed regardless of the age at which you died. Now these new options on death mirror the options available when you are building up a pension. Table A explains the different tax treatment on death.

Under the old rules this would have meant the pension being subject to a 55% tax

charge. Under the new rules it will be tax free if the person dies before age 75. If the person dies after age 75 the pension can be distributed to the beneficiaries’ tax free with them just paying the income tax if they take money out.

## When you have bought an annuity

Annuities are purchased from insurance companies and are a secure, regular taxable income, the income is paid for life.

An annuity will stop on death unless specific options to protect the income or purchase price have been selected at the start. Once set up an annuity cannot normally be changed or cancelled so it’s important to choose your annuity very carefully.

There are three options under annuities to ensure the annuity doesn’t die with you. They have to be chosen when you set up the annuity and include:

1. An income that continues to a nominated beneficiary (joint life option)
2. An income guaranteed for a minimum period of time
3. A money back option if you die before a certain age (known as value protection), where your beneficiaries will receive what’s left of the amount used to buy the annuity, less the income paid out.

Table B shows the various tax implications on death.

Depending on your circumstances, there is the choice of selecting as many (or as few) of the options as required. Choosing these options will usually reduce the starting

income as it covers the cost of providing additional benefits, but it far outweighs the problem of not purchasing death benefits which will see the loss on early death and any surviving spouse or partner may be left short of income.

Ensuring your pension money goes to the beneficiaries’, pension providers may ask you to nominate your chosen beneficiary or beneficiaries. Investors are encouraged to complete an Expression of Wish form, which allows you to nominate those to whom they would like their SIPP fund paid, after their death. This is not legally binding, but does give an indication of a persons wish and can be changed at any point.

## Additional important considerations

Generally pensions are free of inheritance tax (IHT) as they are typically held in trust outside your estate. Pension contributions made while in ill health or within two years of death may still be liable to IHT. HMRC rules require any tax-free benefits to be set up within two years of death. Tax charges may also apply if you exceed the lifetime allowance and die before age 75.

Making decisions about your pension is most important. Whilst it is critical to understand your options, you should consult your professional financial adviser before proceeding with any pension option.

Alternatively, Pension Wise, the Government’s new pension guidance service, provides a free impartial service to help you understand your options at retirement. You can access the service online at [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk), by calling 030 0330 1001 or face to face.

This article is based on our understanding of current pension legislation & Government announcements as at 22 May 2015 which is subject to change

Table A: Drawdown – tax on death

| Passing on your pension | Die before age 75                                                                                      | Die on or after age 75                                                                                                                 |
|-------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Lump sum                | Tax free                                                                                               | Subject to 45% tax for payments made between 6 April 2015 and 5 April 2016<br><br>Taxed as income* for payments made from 6 April 2016 |
| Income                  | Tax free via an annuity or drawdown (both options available to any dependent or nominated beneficiary) | Taxed as income* via an annuity or drawdown (both options available to any dependent or nominated beneficiary)                         |

\*Income is taxed at the beneficiary’s/beneficiaries’ rate of income tax.

Table B: Annuity – tax on death

| Passing on my pension                                                             | Die before age 75 | Die on or after age 75                                                                                                                 |
|-----------------------------------------------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Lump sum (only payable if you have chosen the money back/value protection option) | Tax free          | Subject to 45% tax for payments made between 6 April 2015 and 5 April 2016<br><br>Taxed as income* for payments made from 6 April 2016 |
| Income (only payable if you’ve chosen joint life or a guarantee period)           | Tax free          | Income* is taxable                                                                                                                     |

\*Income is taxed at the beneficiary’s/beneficiaries’ rate of income tax.

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# How to invest £100,000

This is the question those able to benefit from the newfound pension freedoms may have to answer, perhaps not £100,000 but money requiring careful investing all the same.

Those who have built up a defined contribution pension pot, whether at work or in a personal pension, must decide how to use it now they are free from purchasing annuities and do as they choose.

For many this may be in addition to other sources of income, perhaps from a final salary pension, while for others it could be their only main source of income above their state pension.

With an estimated 10 per cent of investors now saying they will buy an annuity, according to Hargreaves Lansdown research, the dilemma of how to invest in retirement may throw up some real issues for many, with the majority worried about running out of money or being scammed.

The major concern at present is the quick rush toward bonds and the bond markets. The traditional safe-bet investments of government and blue-chip corporate bonds currently look like some of the most expensive risky options available.

Yet many nearing retirement and investing using their pension's lifestyle option are still being shifted into bonds and all this at a time when many believe the bubble is about to burst.

There is not much comfort either in following the cautious investment route.

Savers considering where to invest pensions for retirement income need to beware the old cautious method where it is wise to split something like 80% bonds and 20% shares as a steady cautious way ahead is no comfort.

Whether you think the bond market is heading for a fall or not, there's no denying it is near the top of a 30 year bull run.

This has seen yields sink to record lows and prices, which rise in the opposite direction rocketing up.

It is hard to know what will happen next, but bonds look like they stand in opposition to the old investing chestnut of 'don't buy the expensive stuff'.

Equity income funds could be another option, but even here it pays to be choosy as

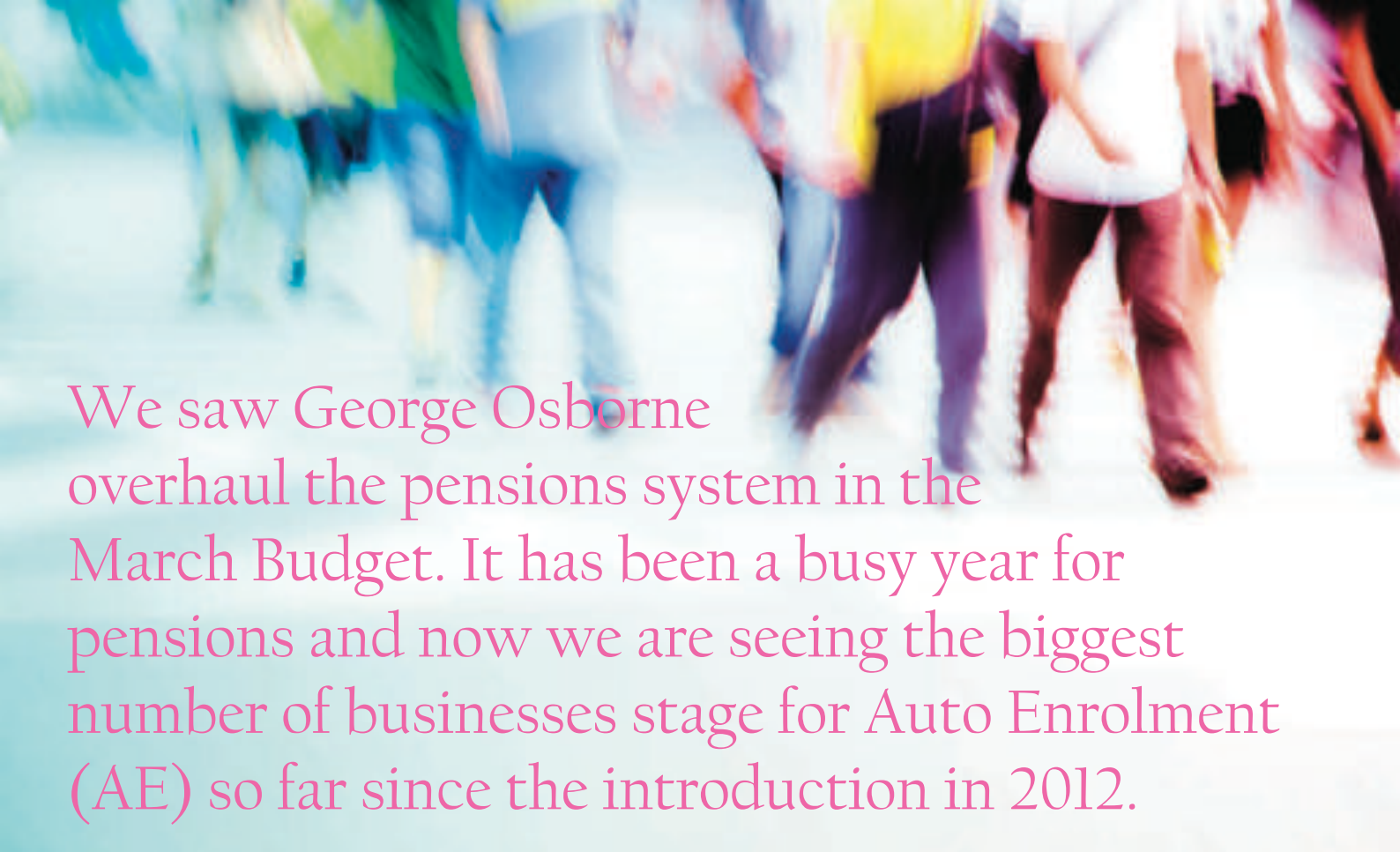
some of these shares could be hit too if rates rise faster than thought.

Some experts voiced their concerns over this possible outcome earlier in the year, highlighting how some big names were having high valuations justified by comparing their dividend yields with the current low yields offered by government bonds. Such equities were said to be cheap because the risk-free rate on UK government bonds had fallen.

Many professionals believe that quality dividend paying companies, with strong balance sheets and the ability to grow their businesses look the most likely options for a retirement income investment, but that investors need to look beyond the everyday players.

That could mean looking to medium and smaller companies, rather than the FTSE 100 blue chips, or overseas companies, perhaps even exploring Asia's growing appetite for dividend yielding companies.

The main thing to remember is that you need to carefully explore your options and always contact your professional financial adviser before investing.



We saw George Osborne overhaul the pensions system in the March Budget. It has been a busy year for pensions and now we are seeing the biggest number of businesses stage for Auto Enrolment (AE) so far since the introduction in 2012.

The earnings threshold is changing for AE into a workplace pension, thousands of businesses are preparing to fully enrol in 2015, so what is changing and what does it mean?

### What's changing?

In October 2014 the government launched a consultation into whether the threshold for AE should be changed for April 2015 to March 2016. This meant a potential change in the eligibility criteria for being automatically enrolled into a workplace pension, focusing on earnings. This currently stands at annual earnings of £10,000. The government has announced that it will be freezing the threshold at £10,000 for the year ahead.

The consultation was to ensure that enough people were saving for retirement. If the threshold is set too high, people who should be saving lose out; but if it is set too low, people who can't afford to save will be driven to opt out. At the same time, any change to the legislation has to strike the fine balance of ensuring the right people are saving, while not adding even more complexity for employers – which is already a big burden to small companies who are the people actually responsible for implementing auto enrolment.

With this in mind, the Institute of Directors (IoD) suggested a more radical approach by suggesting scrapping the thresholds completely. They stated that they felt the rules set around band earnings as way too complicated to understand and recommended not to alter the levels but to abolish them.

However, the government rejected this argument as they had estimated that this would add around £250m to employers' costs next year. Instead the government say that the decision to freeze the threshold strikes the right balance between ensuring that the people brought into pensions saving are likely to benefit and administrative simplicity.


### What it means for businesses?

This decision means that there is no change in the earnings threshold for employers to worry about. But in fact it is not quite as straightforward as it first appears. A freeze means that the AE threshold will no longer be linked to the income tax threshold. Maintaining this link would have been the simplest solution and the CBI (Confederation of Business Industry) has also warned of the potential implications of separating the two criteria, both for businesses that have already staged and for those who are preparing to do so.

The current threshold is easy to understand, both for employees who are being enrolled and the employers who are working out eligibility. Broadly, the rule applies that "if you pay income tax you will be auto enrolled" and linking the AE and income tax thresholds is also compatible with payroll systems. Freezing the trigger will mean that from April, many employees that would not have been eligible for AE if the current rules remained will now be automatically enrolled.

For employers this will require changing their payroll systems for various individuals. If a firm's payroll software has a qualifying earnings option, employers will need to check that it has been updated to £10,000 and that it is not going to increase in line with the lower earnings limit from April. Come April, employers will have to check again that the qualifying earnings is correct. If qualifying earnings is not used, employers will need to select the manual options and check that these are all correct. It's clear that there is a risk of non-compliance if businesses have too little time, resources or knowledge to implement these changes.

The government in trying to save itself cash in the long term has implicated additional costs to many SMEs with this measure.



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## Savers baffled by new rule that lets you claim up to

*Savers are confused by a new tax rule that came into effect in April. This lets you earn up to £5,000 in savings interest without paying any tax. But how much of this allowance you can claim depends on the source of your income, as it is split between your savings and non-savings income.*



**£5,000** in interest tax free

Those whose salary, pension or other 'non-savings' income totals more than £15,600 (£15,660 if you were born before April 6, 1938) can't claim the special tax break.

But you can get it if your total income from non-savings is below this level. Depending on your salary, you can register as a non-taxpayer or claim back some of the tax to be automatically deducted from your savings.

Which you do depends on the split between your savings and non-savings income.

To work out which category you're in, add up your total non-savings income. This includes salary, pensions, benefits, dividends and rental income from any second home or buy-to-let investments.

Don't add in your interest from your savings accounts, but tot it up in a separate column. Ignore all interest you earn on your cash ISAs and other tax-free savings, such as Premium Bonds and National Savings & Investments Savings Certificates.

If your non-savings total is less than £10,600 (£10,660) and your savings interest is less than £5,000, you don't have to pay any tax so you can register as a non-taxpayer with your bank or building society.

For example, if you earn £3,000 before tax in interest from your savings and £7,000 from your pension, your total income is £10,000 or £600 less than the personal allowance. In this case, you are deemed a non-taxpayer.

You can also register to have interest paid before tax if your non-savings income breaches the £10,600 (£10,660) limit but, after adding in your savings income, you don't go over the £15,600 limit.

For example, if your salary is £11,000 and your savings income £3,000 (a total of £14,000), you are under the limit.

To get the interest paid before tax is deducted, fill in form R85, which is available from banks or building societies. They automatically deduct 20 per cent tax if you don't.

Fill in a separate R85 form for each of your taxable accounts. Don't fall into the trap of thinking one form will cover your easy-access account and the fixed-rate bonds you hold with the same bank.

If your savings interest is a joint account, the interest is typically split 50/50 by the taxman. If you are both non-taxpayers, you both need to fill in the R85 form.

If one of you is a taxpayer, but the other is not, check to see whether your bank or building society allows you to receive half after tax and half before.

If not, you will have to reclaim the tax from HM Revenue & Customs. If the sum of your savings and non-savings limit is higher than £15,600, the so-called 'starting rate for savings limit', you can't register as a non-taxpayer. However, you can claim back some tax as long as your non-savings income is not higher than £15,600.

For example, with £2,000 savings interest plus your £14,000 pension, your total income is £16,000. But you still have £1,600 (£15,600 minus £14,000) to use up in the starting rate for savings limit.

So you can claim back the tax paid on £1,600 of your savings income or £320 (20 per cent of £1,600) - but not on the £400 (£16,000 minus £15,600) that puts you over the starting rate for savings limit.

If your pension is £15,600 and savings interest £400, you can't reclaim any tax.

# Give your children the best start in life

Many parents falsely believe that you need a considerable sum to start, on the contrary, one of the best ways to save is by using a regular savings plan where parents and grandparents can deposit small but fairly regular amounts of money into investments on a monthly basis.

Affordability is the key component because most parents will not always have access to considerable amounts of money when they start a family. This is when grandparents can lend a helping hand by putting money aside for their grandchildren. Regular savings plans offer an affordable pathway into building a good sized investment portfolio. Parents and grandparents often invest as little as £25 per month which, over time, could accumulate into a large pot of money for a child.

### Compound interest

A small amount regularly invested can grow into a substantial amount over time. Assuming a growth rate of 5% each year, the table below shows how much investing £50.00 per month could be worth over time.

| Time period | £50 per month |
|-------------|---------------|
| 5 years     | £3,391        |
| 10 years    | £7,718        |
| 18 years    | £17,263       |

*Please note this is an illustration not a projection.*

### Tax-efficient monthly investing

Junior ISAs have quickly become a popular way for family and friends to build up tax-efficient savings and investments to help with the costs associated with growing up such as, university, providing a deposit for a flat or simply give a child a good start in life. Similar to adult ISAs, Junior ISAs offer considerable tax benefits, there is no further income tax to pay and no capital gains tax. But remember, tax rules can change and the benefits depend on your child's circumstances.

### How to set up monthly savings in a Junior ISA

Only the parent or legal guardian can open a child's Junior ISA and most choose to open the account with a debit card, either online or over the telephone.

A point to remember is that all stock market investments can fall in value as well as rise so they are normally considered long term investments and you could get back less than you invest. Tax rules can change and the value of any tax shelters will depend on a child's circumstances. This is why before investing it is wise to contact your professional financial adviser who will recommend the best option for you.

Please note unlike adult ISAs you cannot open a series of Junior ISAs with different providers each year. Instead investors use each year's annual allowance with the current provider or transfer to a new provider first before making use of the allowance.

*Many parents believe the highest priority in life is to give their children the best financial start they can in life.*

**The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.**



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# The lottery of deciding when to take 'with profits' benefits

Recently with profits investments have fallen out of favour due to falling payouts, a lack of transparency about how money is invested and the arbitrary decisions surrounding the bonus payments, but many people still hold them.

There are millions of people who are saving for retirement or to pay off their mortgage using an investment known as 'with profits'. These were very popular forms of investments during the 1980-1990s.

The idea being that the experts invest your money in a big pool and the profits from the investments are shared out over time so that your nest egg grows steadily.

Each year some of the returns are added to your policy as a guaranteed bonus. As they cannot be taken away they are less risky than direct stock market investments, with the returns in good years held back, so that there will be money to pay a return in a bad year.

To encourage you to stay invested, these policies usually have a final bonus paid on maturity at retirement age or at the end of the policy term. However, if you cash in early, you will probably receive a smaller final bonus or none at all. With some policies, you could also see a penalty reduce the value earned so far if you cashed it in early.

With profits pension policies often give a guarantee that the nest egg can be turned into an income for life at retirement and at a set rate.

### So what's the problem?

Equitable Life was one of the biggest providers of these policies. In the 1990s they lost a 'with profits' court case in the House of Lords which disagreed with how the bonuses were to be paid.

This decision meant Equitable had to pay the same bonuses to those who had these guaranteed rates in their policy as well as those who didn't. Equitable didn't have the coverage and so began a long process of sorting the consequences out, which is still with us today, where large sectors of people are feeling duped and misled.

This debacle was the beginning of the end for 'with profit' policies. People liked them when they worked but when they didn't and lots of money was lost that buyers never even thought was at risk, sales came to a halt.

There are though, retirees out there who may have one or more of these policies.

### So what should you do if you hold a with profits investment

If you have one, check whether you have any guaranteed income terms or 'guaranteed annuity rates' as they're called in the trade. Find out how

much is paid and scope out any attached conditions. You should then compare what they pay to the best rates on the market so you can see how good a deal they are.

Also, find out if you can transfer the money elsewhere without a penalty or without suffering reduction in your final bonus. Some people may have left their policy running after its maturity date without taking any benefits so they will need to find out how their final bonus works and its current value.

No one can take your bonuses away, so there is no need to rush or panic but remember your bonus will go up and down as the years pass and could be less than will be offered next year. In some policies, the final bonus could be a huge sum. Deciding when to take benefits could make a significant difference to your final income.

Don't wait until you absolutely need the income for your retirement before making a decision. Remember doing nothing is effectively turning down today's offer and the next one might not be so good.

Ensure you speak with your professional financial adviser before making any long term life decisions.

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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