WEALTH PERSPECTIVES

Issue 4 | August 2013

A PENSION INCOME WITH NO CAPS AND NO LIMITS. *No kidding!*

You could withdraw as much as you need, without limits, in regular amounts or ad hoc withdrawals!

Automatic Enrolment

FOR SMALL BUSINESS OWNERS

Almost all UK employers are affected and most will need professional help.

BEWARE THE SILENT *thief*

Often going without notice and secretly eroding the value of your savings.

KEY EVENTS *in* *Global* MARKETS

Volatility in markets seems likely to continue as Investors adjust to the idea of policy tightening.

TAYLOR BURKE PARTNERSHIP

CAERUS Capital Group

WELCOME TO THE **FOURTH EDITION**

of WEALTH PERSPECTIVES

Welcome to the fourth issue of our Client magazine, Wealth Perspectives. In the following pages, Industry experts from leading Pension and Investment companies share their views on the issues that affect your finances.

Keith Carby, Chairman and CEO of CAERUS Capital Group, explains the danger of inflation - how it can silently erode the value of your savings, and what you can do to prevent this from happening.

Dave Fishwick, Head of Macro and Equities Investment at M&G, looks at the key events that have shaped the markets in the last six months.

2013 marks the start of pension auto enrolment, **Martin Haggart, Technical Development Manager at Aegon,** explains the implications this will have for small business owners.

Adrian Walker, Retirement Marketing Manager at Skandia, explains how recently introduced rules have made it easier to access your pension fund.

Paul Fidell, Business Development Manager at Prudential, explains the impact that Inheritance Tax can have on your estate when you die, and looks at some of the strategies you can implement to mitigate it.

Finally, **Peter Hamilton, Head of Retail Proposition at Zurich,** looks at how you can protect your income in the event that you are unable to work due to illness or accident.

If you wish to discuss your finances or any of the issues raised in this edition, please do get in touch.

Best wishes

Colin Burke

Sandra Taylor

Partners: Colin Burke & Sandra Taylor
Taylor Burke Partnership

Sandra Taylor

Colin Burke

In this issue:

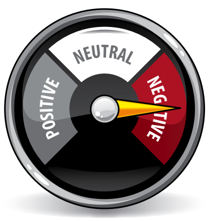
THE SENTIMENT

The Sentiment provides an outlook on the different asset classes.

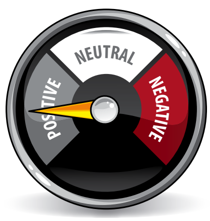
MANSARD CAPITAL

Mansard Capital is a specialist Investment Manager providing discretionary management services, multi-asset solutions and alternative Investment funds to private Clients and institutions.

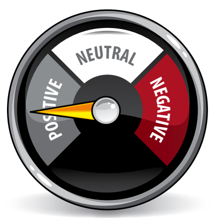
Equities



Government Bonds

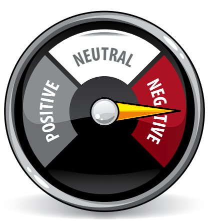


Other Bonds



Alternatives

Property

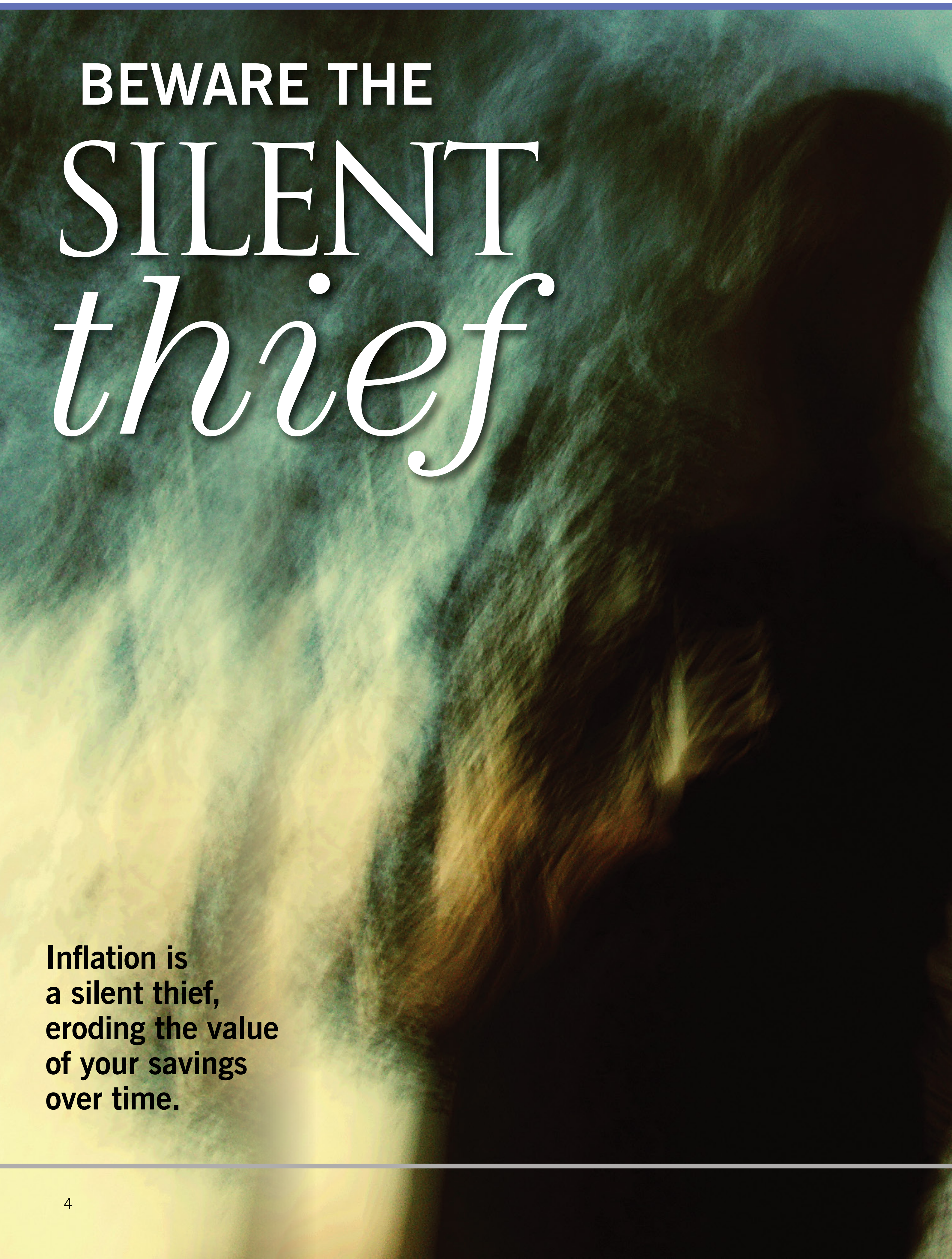


Cash

Sterling

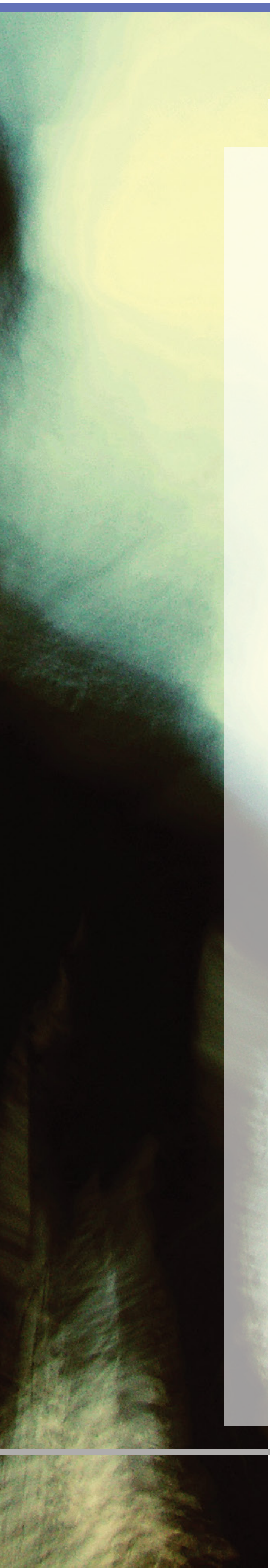
Dollar

Please note, this information is for indicative purposes only and that forecasts are not a reliable indicator of future results.



BEWARE THE SILENT *thief*

Inflation is a silent thief, eroding the value of your savings over time.



This often happens without notice as the actual value does not change. However, the real value of your savings diminishes as the amount of goods that you can buy with them decreases.

August 2007 saw the start of a period of stock market volatility, a drying up of liquidity in global markets and the first run on a British bank for over 100 years[1]. Investors understandably took flight from riskier assets. However, six years on and although the economy is far from recovered, those that weathered the storm in equity markets will have done significantly better than those that opted for the 'safety' of cash.

Since the 1st August 2007, the Consumer Price Index (CPI), has increased by 20.79%[2]. In other words, something that cost £100 in 2007 now costs £120.79. If you had hidden £100 under your mattress for the last six years, you would not be able to buy as much with it as you could have in 2007, due to the increase in the cost of goods. In other words, its value in real terms has diminished.

Over the same period, savers would have only received a total of 8.3% in interest[3]. This is still well below the rate of inflation, meaning anyone with money in a savings account has seen the real value of their money fall. £100 placed in a bank account in 2007 would now be worth £108.30. Savers are still short in real terms, as the price of the goods has risen to £120.79.

However, those who invested in the stock market on 1st August 2007 would have fared better - receiving a return of 22.48%[4] - meaning their money would have increased to £122.48. Compared to savers, or those who hid money under the mattress, they would be able to buy slightly more with their money than they would have in 2007.

Of course, investing in the Stock Market does mean ups and downs. At certain times during the last six years, those August 2007 Investors would have seen big falls in the value of their Investment. However, over the long term, Investments in shares are a good bet to outperform inflation. One of the reasons for this is that companies can, and often do, react to price rises by increasing the price of their goods or services. Most of us will be familiar with rising gas and electricity bills over the last few years. The ability of companies to pass on the majority of price rises means their profits rise, as, generally, does their share price. Those invested in the shares of these companies will see the value of their Investments rise. However, investing in shares is a complex business so it is important to take expert advice from your Financial Adviser to ensure that, not only does your money grow to meet your goals and objectives, but also to make sure you do not expose your money to any unnecessary risk.

CAERUS
Capital Group

Keith Carby
Chairman
& CEO
CAERUS
Capital Group

SOURCES: (1) HTTP://NEWS.BBC.CO.UK/1/HI/BUSINESS/7521250.STM (2) CONSUMER PRICE INDEX: 01/08/2007 - 24/06/2013 INCREASE OF 20.79% (SOURCE – FINANCIAL EXPRESS) (3) MONEYFACTS INSTANT ACCESS 1K: 01/08/2007 – 24/06/2013 RETURN OF 8.30% (SOURCE – FINANCIAL EXPRESS) (4) FTSE 100: 01/08/2007 – 24/06/2013 RETURN OF 22.48% (SOURCE – FINANCIAL EXPRESS)

Caerus
Capital Group

KEY EVENTS *in* *Global* MARKETS

The early months of 2013 saw those assets which are generally perceived to be 'riskier', such as equities, gaining strength in a broad sense, on improving Investor sentiment over the outlook for global economic growth. However, it was interesting to observe that within asset classes such as equities, various regions and sectors behaved differently and did not all rally together.

US equities experienced a strong first quarter after starting January on the back of a last-minute deal reached – at least temporarily – to stave off the issue of a package of tax hikes and spending cuts (the so-called 'fiscal cliff') that had clouded sentiment around the US in earlier months. Investor confidence was further bolstered by various positive economic data releases, particularly on labour and housing, and policy moves. UK and some Asian equity holdings also performed well. However, other regions were more mixed, for example China, where concerns over policy tightening and property markets weighed on equity prices. Developments in Cyprus towards the end of the first quarter also reminded market participants that the economic situation in the eurozone remains fragile.

The fact that, in the early part of the year, equity markets did not move in unison, appears to reflect a fairly cautious level of confidence, rather than irrational exuberance, among market participants. As the year progressed, the fragility of this confidence became apparent. From late May, after US Federal Reserve Chairman Ben Bernanke raised the possibility of the US beginning to taper its quantitative easing programme – should the US economy continue to show signs of a gradual recovery – both equity and bond markets sold off sharply.

It seems that, in recent years, Investors have become dependent on unprecedented levels of monetary support from the world's major central banks to boost market sentiment. Global policymakers appear to have been so successful in reassuring Investors of their commitment to bolstering economic growth that market participants have come to expect indefinite, round after round of quantitative easing as a long-term solution. Indications that some regions such as Europe and China were experiencing weaker economic activity around April did not weigh as heavily on sentiment as might have been expected and, instead, seemed to fuel expectations that central bankers would be provoked into further stimulus measures. This explains the shock that financial markets experienced following Bernanke's comments but, in our view, the suggestion that quantitative easing will wind down as economic conditions improve should come as no surprise.

Looking ahead, volatility in markets seems likely to persist as investors adjust to the idea of policy tightening

However, major stimulus moves across the globe in recent years have artificially inflated some asset prices beyond their true value, and those which have been the main beneficiaries of easy central bank policy since 2008 suffered the most from the sudden change in sentiment. For example, mainstream government bonds (which we feel have looked dangerously overpriced for some time) and emerging market equities and currencies, sold off sharply from late May.

The almost indiscriminate sell-off at the broad asset class level following Bernanke's comments on 22 May seems to indicate that Investors were generally reacting irrationally rather than carefully considering the true underlying qualities of different assets. However, the abrupt nature of the bond sell-off in particular reminds us of the danger of thinking of any single asset as a 'safe haven', as Investors' perception of 'safety' can change quickly and dramatically.

Looking ahead, volatility in markets seems likely to persist as Investors adjust to the idea of policy tightening. Growth concerns which resurfaced in some regions over recent months are not completely unfounded. The global economy faces a number of fundamental challenges, particularly from China, while the eurozone also remains potentially problematic. However, we believe that equities as a whole continue to be undervalued against a backdrop of improving fundamentals in several regions, especially the US, and benign policy in others, such as Japan, but market selection will be especially important.

M&G INVESTMENTS

Dave Fishwick
Head of Macro and Equities Investment
M&G INVESTMENTS

Automatic Enrolment

FOR SMALL BUSINESS OWNERS

As a small business owner, you can't afford to ignore the momentum gathering from the growing numbers of employers affected by the automatic enrolment provisions, the new employer duties being phased in by the Government to help people save for their retirement.

Almost all UK employers are affected and most will need professional help to understand and comply with a range of new employer requirements, both initially and on an ongoing basis.

As an employer, you'll be given a staging date based on your PAYE scheme size at April 2012, although you can bring this forward if appropriate. When this date arrives you'll be legally obliged to automatically enrol all of your 'Eligible jobholders' (broadly a worker aged between age 22 and State Pension Age earning more than £9,440 a year in 2013/14) into a 'qualifying scheme' (a scheme meeting certain standards) and pay contributions on their behalf, unless all such individuals are already active members of such a scheme or they subsequently opt out of scheme membership.

The minimum contribution rate that needs to be satisfied is 8% of 'qualifying earnings' (broadly total earnings in the band between £5,668 and £41,450 in 2013/14) with you, as an employer, picking up at least 3% of that cost. There are additional options available to meet the minimum contribution requirement. Contribution levels are also being phased in through to October 2018.

Staging dates started in October 2012 for the very largest employers and continue for medium, small, micro and new start employers through to 2017, by which time all employers will be expected to be compliant. You can find out your own individual staging date here **http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx**

Make it your priority to speak to your Financial Adviser about automatic enrolment and start your preparation.

Preparation is key to meeting your new employer duties. You need to plan ahead and identify who'll be responsible for automatic enrolment within your organisation, what your legal requirements are, the impact on your systems and processes and the timeframes you need to act within.

The supporting legislation is complex and you'll have many key decisions to make. The best prepared employers will be the ones who rely on the knowledge and expertise of their Financial Advisers and who give themselves as much time as possible to get ready.

The main stages in your preparation should include:

- **Identify your staging date** - the Pensions Regulator will write to you at least 12 months in advance to tell you what your staging date is.
- **Clean employee data** – make sure the data you hold for your workforce is up to date and you have all the information you need in the correct format, for example having email addresses may ease the communication process.
- **Assess your workforce** – your workers will fall into three main categories: Eligible jobholders who must be auto-enrolled; and Non-eligible jobholders and Entitled workers who must be given the right to opt in.
- **Review existing pension arrangements** – do you have an existing scheme that already meets the qualifying scheme conditions or could be adapted to suit? What changes need to be made to make it suitable for automatic enrolment? How will the scheme meet the minimum contribution levels?
- **Communicate with workers** - having a communication plan in place will help you get the right information to your workforce at the right times.
- **Automatically enrol** all of your Eligible jobholders and ensure their scheme membership is achieved in the correct timescales.
- **Manage any opt-ins** - make arrangements for any Non-eligible jobholders and Entitled workers who want to opt in.
- **Manage any opt outs** received and make any appropriate refunds of member contributions deducted within the correct timescales.
- **Register with the Pensions Regulator** within a maximum of four months after the staging date, and make a plan to re-register every three years.
- **Make the agreed contributions** for and on behalf of jobholders in the appropriate timescales.
- **Keep scheme records** and be prepared to provide information to the Pensions Regulator if asked to do so.
- **Ensure you have a re-enrolment process** in place to repeat the enrolment exercise, broadly every three years from the staging date.

Doing nothing isn't an option! As an employer, if you don't comply with your duties, the Pension Regulator has the power to issue notices and impose fixed and escalating financial penalties. For example, if you fail to automatically enrol Eligible jobholders, or don't pay contributions to the scheme by their due date.

Make it your priority to speak to your Financial Adviser about automatic enrolment and start your preparation. The earlier you start the process the more prepared you will be when your staging date arrives.

Martin Haggart
Technical Development Manager (Pensions)
Aegon

A PENSION INCOME WITH NO CAPS AND NO LIMITS

No kidding!

skandia
A Member of the OLD MUTUAL Group

Adrian Walker
Retirement Marketing Manager
Skandia

Until fairly recently, the ways in which you could take retirement income from your personal pension fund were restricted to buying an annuity or leaving your money invested and taking regular drawdown.

The problem for anyone considering how best to take their pension was that annuity rates were (and still are) at historical lows and, for drawdown, there are limits on the total amount you can take each year, set by the Government Actuary Department.

In the April 2011 Finance Act, however, a new solution to this problem was introduced called 'flexible drawdown'. Flexible Drawdown, if you can show that you are already receiving guaranteed pension income, known in the rules as 'relevant pension income', of £20,000 in a tax year, will allow you to withdraw as much as you need, without limits. You can take it in regular amounts, ad hoc withdrawals, or even all at once. All withdrawals, except any element of unused savings that is tax-free, will, of course, be subject to income tax in the usual way.

For many people with substantial pension savings, this 'no strings attached' option means the opportunity to gain more control of their total wealth, enabling delivery of a more comprehensive financial planning outcome.

What are the flexible drawdown requirements?

To qualify for flexible drawdown you must meet the following conditions:

- You must be receiving 'relevant pension income' of at least £20,000 per year; and actually receive at least £20,000 relevant pension income in the tax year that you enter flexible drawdown.
- You must not have made pension contributions to a money purchase arrangement (for example a personal pension) in the tax year that you go into flexible drawdown. This includes contributions made on your behalf by an employer or a third party.
- You must have stopped building up benefits under a defined benefit or 'cash balance' arrangement.

If you can meet those requirements, you will also need to make a valid flexible drawdown declaration and have it accepted by the Scheme Administrator.

It's also worth noting that, once you have entered flexible drawdown, you will incur tax charges if you build up any subsequent pension benefits under any other registered pension scheme.

What type of pension income counts as 'relevant pension income'?

The relevant pension income of £20,000 needed in order to qualify for flexible drawdown can be made up of the following:

State pensions – basic state pensions and state second pensions; state graduated pension; industrial death benefit; widowed mother's allowance; widowed parent's allowance; and state widow's pension.

Scheme pensions – this is a type of pension that is normally provided by final salary (defined benefit) schemes. Such pensions will only count as 'relevant', however, if either of the following applies:

- There must have been 20 or more members with defined benefits entitlements in the scheme before 6 April 2011 and you were one of those members, OR
- The scheme pension you are receiving is met by an annuity contract provided by an insurance company.

Lifetime annuities – this is pension income purchased from an insurance company. It must be either a level amount or increasing by a fixed rate, for example 3% a year, or linked to RPI (Fixed term annuities don't count).

Overseas pensions as long as they are one of the types of pension above if paid by a UK registered pension scheme.

Pension income from the Financial Assistance Scheme (FAS) - this is compensation to members of pension schemes that did not have enough money to pay member's benefits.

What if you enter flexible drawdown and it is subsequently found that you have not met the conditions?

This depends on what payments have been made from the drawdown fund. If the flexible drawdown conditions were not met, the payments taken will be subject to same maximum annual income limits that would apply to capped drawdown.

If the income taken exceeds the maximum amount allowed per year under capped drawdown, the excess income withdrawal payment will be subject to unauthorised payment tax charges by HM Revenue & Customs. The tax charge can be up to 70% of the excess income withdrawal payment (less any income tax already paid on the withdrawals.)

Having to pay a tax penalty on unauthorised payments is just one of the potential pitfalls of pension legislation. It highlights the crucial importance of making the right decisions about your pension, since the outcome will affect the quality of the rest of your life. And, in many cases, such as entering flexible drawdown, those decisions are irreversible. The option of flexible drawdown, therefore, may or may not be suitable, depending on your circumstances. As always, you should seek the help and expertise of your Financial Adviser.

ESTATE PLANNING

Inheritance Tax (IHT) is a tax on your estate - the things that belong to you - when you die, and is also sometimes payable on trusts or gifts made during your lifetime.

This includes the total of everything you own and a share of anything you own jointly.

With a little planning you may be able to reduce the bill or avoid IHT altogether. Things that might count towards your estate include:

- Property
- Investments
- Insurance
- Payment from a pension plan or employee death benefit (unless in a trust).
- Other assets, for example, cars, art, jewellery, furniture.
- Gifts you have made but still benefit from, for example, a house you have given away but still live in.
- Certain gifts that you have made in the last seven years.
- Assets held in trust from which you receive personal benefit.

If you own assets jointly, your share of their value is included in your estate.

With a little planning you may be able to reduce the bill or avoid IHT altogether.

How much can I leave before inheritance tax affects my family?

For the 2013/14 tax year, no tax is charged on the value of your estate up to £325,000. This is also known as the ‘nil rate band’ and everything above that is taxed at 40%.

HOW MUCH OF YOUR ESTATE WOULD GO TO THE TAX MAN IN THE 2013/14 TAX YEAR?

Estate value	Inheritance tax bill
Less than £325,000	£0
£400,000	£30,000
£500,000	£70,000
£600,000	£110,000
£700,000	£150,000
£800,000	£190,000
£900,000	£230,000
£1,000,000	£270,000

If an individual’s inheritance tax nil rate band is not used up on their death, the unused proportion can be transferred to their surviving spouse or civil partner.

Assets passed between spouses or civil partners are exempt from IHT (assuming the spouse or partner is domiciled in the UK), regardless of their worth and how soon you die after making them. These rules also apply to gifts made to charities.

Additionally, any amount of money you give away outright will not be counted for IHT if you survive for seven years after making the gift. If you die within this period, the amount of the gift will be included within your estate. Taper relief may apply in these circumstances and can reduce the amount of inheritance tax due.

Bear in mind tax laws are subject to change, possibly retrospectively. Also, the rules for individuals who are not UK resident or not UK domiciled are different and, therefore, tax and local laws should be considered by a potential Investor.

How can I plan for inheritance tax?

There are a number of things you can do to reduce your family’s tax bill.

- Make a will - an effective will could help to reduce your inheritance tax bill.
- Look into exemptions - there are a number of exemptions you can use to reduce the value of your estate. For example, moving assets between spouses or civil partners does not create a tax liability. If you leave 10% or more of your estate to charity, the rate at which you pay IHT on the remainder will be reduced from 40% to 36%.
- Consider gifts - if you can afford to give away some of the assets you own, it may be possible to reduce the size of your estate.
  - Think about life assurance - a life assurance plan won’t actually lessen the inheritance tax bill but the proceeds could be used to help pay the bill on death.
  - Consider trusts - if structured carefully, trusts can help to reduce or even eliminate your inheritance tax liability.

To find out more

Inheritance tax is complex and we recommend you get advice from a Financial Adviser who will be able to look at your individual circumstances and assess your needs.

The above is based on Prudential’s understanding, as at February 2013, of current taxation, legislation and HM Revenue & Customs practice, all of which are subject to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances.

PRUDENTIAL

Paul Fidell
Business Development Manager
Prudential

Preparing for the unexpected

Are you financially prepared for serious illness?

When it comes to our Investments, most of us are not expecting to become the next Warren Buffett. It is the promise of financial security which drives us to save for retirement, a new house, school fees, holidays, or even just a rainy day. But what about the financial pressures you don't expect? Redundancy, emergency repairs, or worst of all, serious illness?

ZURICH

Peter Hamilton
Head of Retail Proposition
Zurich

Take time to familiarise yourselves with the symptoms Stroke - one of the most unpredictable and debilitating illnesses. The Government's 'FAST' campaign encourages people to watch out for:

- Facial weakness
- Arm numbness
- Speech difficulty, and
- Time - call an ambulance immediately.

But what about the financial symptoms of a stroke? According to the recent AIG Direct Heart Attack and Stroke survey, one quarter of the 157,000 strokes that occur in the UK each year are among people of working age. And, among all stroke survivors, a massive 70% experienced a decline in personal income after the illness.

What we know

A stroke can happen to anyone, at any time. However, most of the people affected are over 55, and the risk increases as you get older. Under the age of 75, men are generally more likely to have strokes than women, but middle-aged women are more at risk than men in the same age group. For some reason, people whose ethnic background is South Asian, African or African-Caribbean origin are more likely to be affected.

You can reduce your chances of getting a stroke by maintaining a healthy weight, exercising and giving up smoking.

What we don't know

Recovery can take anything from a matter of weeks, to a number of years; even the rest of your life. The effect of a stroke differs from person to person, but the worst case scenario stroke survivors will require constant care. In the best case scenario, you could be back to normal within a year. According to the AIG Direct survey, 32% of stroke survivors went back to work between four and six months after the stroke, and 33% went back more than a year later.

However, almost one in five (17%) ended up retiring on medical grounds, and 15% went back to their previous job with modified hours.

Among stroke survivors who don't currently work, 40% say it is because they don't feel fit enough, 38% say they are no longer able to do their previous job and 22% can no longer drive or take public transport to work.

Financial preparation

While it is unrealistic to prepare for every single surprise life throws at you, it is always prudent to set something aside for a rainy day. If you are unable to work for a few months, how will you pay your bills? If you have dependants, how will they be impacted?

Comprehensive insurance will be able to cover you in times of illness, and when you are out of work. However, it is always a good idea to keep a portion of your Investment portfolio in liquid assets, so you can withdraw emergency funds if needed. If you have dependants, a trust fund or Junior ISA can offer long-term saving options as well as ease of access.

It may not be possible to prevent a stroke, but by being aware of the cause and effects, it is possible to prepare your finances for whatever life throws at you.

Key facts

- A stroke can happen to anyone at any time.
- Key symptoms include facial weakness, arm numbness and speech difficulties. If you experience any of these symptoms, call 999.
- 25% of stroke victims in the UK each year are of working age.
- Comprehensive insurance and a balanced Investment portfolio can help you get financially prepared for a stroke, or other sudden illness.

For more information on strokes, see www.stroke.org.uk

LEADING *Indicators*

United Kingdom Stock Markets	3 months	6 months	1 year
FTSE 100[1]	-2.03%	7.62%	15.81%
FTSE 250[1]	0.14%	13.19%	29.85%
FTSE All Share[1]	-1.66%	8.50%	17.93%

Source: Financial Express Analytics 30th June 2013

American Stock Markets	3 months	6 months	1 year
NASDAQ 100[1]	3.23%	9.35%	11.24%
S&P 500[1]	2.91%	13.82%	20.60%

Source: Financial Express Analytics 30th June 2013

European Stock Markets	3 months	6 months	1 year
CAC 40[1]	1.52%	4.65%	20.04%
DAX[1]	2.20%	6.19%	25.22%
DJ Euro Stoxx[1]	2.38%	1.82%	22.17%

Source: Financial Express Analytics 30th June 2013

Other Stock Markets	3 months	6 months	1 year
Hang Seng[1]	-6.71%	-8.18%	7.00%
MSCI Emerging Markets[1]	-4.29%	-4.71%	6.47%
Nikkei[1]	10.32%	31.57%	51.86%

Source: Financial Express Analytics 30th June 2013

Gilts	3 months	6 months	1 year
FTSE British Government 10 – 15 years[1]	-5.31%	-5.11%	-3.73%

Source: Financial Express Analytics 30th June 2013

Property	3 months	6 months	1 year
Halifax Property Index[1]	2.25%	2.90%	3.63%
IPD UK All Property[1]	1.08%	2.17%	3.31%

Source: Financial Express Analytics 30th June 2013

Savings	3 months	6 months	1 year
Moneyfacts Instant Access[1,2]	0.18%	0.38%	0.84%
Moneyfacts 90 days notice[1,3]	0.24%	0.49%	1.13%

Source: Financial Express Analytics 30th June 2013

Inflation	
UK Consumer Price Index	2.7%

Source: Office for National Statistics 18th June 2013

Interest Rates	
Bank of England	0.5%

Source: Bank of England 30th June 2013

Notes

1 Gross return Bid-Bid, annualised (ending 30th June 2013)

2 Moneyfacts Average of instant access accounts, £10,000 invested, total return, gross

3 Moneyfacts Average of 90 day notice accounts, £10,000 invested, total return, gross.

TAYLOR BURKE
PARTNERSHIP

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