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WEALTH MANAGEMENT

Creating, Managing and Protecting your wealth

Further changes for 'pension investors' on the horizon

What the proposed retirement rule reforms could mean to you

Financial wealth check

How to get your money into shape for the New Year

Choosing the right life assurance

How to protect your family from financial hardship

Absolute return funds

Achieving positive growth in bear as well as bull markets

Estate protection

Safeguarding your home and assets from care costs

Investing for income

How much risk are you prepared to take?

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Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

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Welcome

Welcome to our personal financial planning and wealth management magazine.

The start of the New Year is rapidly approaching and for many this is a time to start setting financial goals. But before you contemplate the important factors in achieving your financial success, follow our New Year wealth check and start by keeping your tax bills to a minimum and protecting your wealth from increasing taxation. Read the full article on page 18.

The Chancellor of the Exchequer, George Osborne, announced during the Coalition Budget 2010 the removal of the obligation to purchase an annuity by age 75. Currently, the government is consulting on the proposed changes and further details will follow after a period. On page 05 we consider how the Chancellor's announcement offers individuals the choice over what they do with their lifetime savings rather than having to purchase an annuity at the age of 75.

The time when an elderly person needs to go into residential care is often a huge strain on family members. Illness or infirmity may have forced a sudden change in circumstances and time may be short. On page 12 we consider how prior planning could prevent local councils from forcing the sale of a family home to pay for the costs of care.

Also inside this issue: discover strategies that can boost your retirement income and why absolute return funds can achieve positive growth in bear as well as bull markets. A full list of the articles featured in this edition appears on page 03.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent finance acts. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

Further changes for 'pension investors' on the horizon

What the proposed retirement rule reforms could mean to you

The Chancellor of the Exchequer, George Osborne, announced during the Coalition Budget 2010 the removal of the obligation to purchase an annuity by age 75. Currently, the government is consulting on the proposed changes and further details will follow after a period. This announcement offers individuals the choice over what they do with their lifetime savings rather than having to purchase an annuity at the age of 75.

Currently, pension investors are required to take pension benefits by the age of 75. The income can be provided either from an annuity or income drawdown (unsecured pension) and post age 75 from an Alternatively Secured Pension (ASP). If you reached age 75 on or after 22 June, income drawdown has now been extended to age 77 as an interim measure while the government consults on ending effective compulsory annuitisation at age 75. Currently, on death in drawdown before age 75 there is a 35 per cent tax charge if benefits are paid out as a lump sum. On death in ASP a lump sum payment is potentially subject to combined tax charges of up to 82 per cent.

It is proposed that these tax charges will be replaced with a single tax charge of around 55 per cent for those in drawdown or those over 75 who have not taken their benefits. If you die under the age of 75 before taking benefits, your pension can normally be paid to your beneficiaries as a lump sum, free of tax. This applies currently and under the new proposals. The new rules will be introduced from April 2011.

The government also plans to abolish the Alternatively Secured Pension (ASP), which is similar to income drawdown but has a more restrictive income limit, a requirement to take a minimum income and less flexible death benefits. Instead, income drawdown can continue for the whole of retirement.

Under the proposals, there will no longer be a requirement to take pension benefits by a specific age. Tax-free cash will still normally only be available when the pension fund is made available to provide an income, either by entering income drawdown or by setting up an annuity. Pension benefits are likely to be tested against the Lifetime Allowance at age 75.

For investors using drawdown as their main source of retirement income, the rules will remain similar to those in existence now with a restricted maximum income. However, for investors who can prove they have a certain (currently unknown) level of secure pension income from other sources, there will potentially be a more flexible form of drawdown available that allows the investor to take unlimited withdrawals from the fund subject to income tax.

These include extending the ability to take small pensions as cash using the 'triviality' rules beyond age 75, allowing value protected annuities after this age and changing the tax charge on a lump sum from a value protected annuity to 55 per cent.

The changes outlined above are still subject to consultation with the details still to be finalised. ■

TO FIND OUT HOW THE PROPOSED CHANGES COULD AFFECT YOUR RETIREMENT PLANNING PROVISION, PLEASE CONTACT US – DON'T LEAVE IT TO CHANCE.

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

Enhancing your income

Can you increase your pension income?

If you suffer from certain medical conditions, or if you smoke, an impaired-life or enhanced annuity could significantly increase your income in retirement. Choosing to draw an income from your pension by purchasing an annuity offers a secure taxable income paid to you for the rest of your life by an insurance company and, in return for your pension savings, you could also qualify for some enhancement on your income.

An impaired-life annuity pays out more to people with particular health problems (anything from a triple heart bypass to high blood pressure) and is based on the individual's circumstances. Most providers look at your personal situation in detail. For example, two people who have both had a heart attack could still receive different levels of enhancement, depending on the type of attack and when it occurred.

An enhanced annuity is less tailored than an impaired-life annuity and pays a higher annuity rate to those with particular lifestyles, including smokers and the obese. Even if you're not eligible for an enhanced annuity, or you're unsure whether you're eligible, you should receive professional advice to see if you can obtain a better deal than the one you're being offered by your pension scheme or provider.

You shouldn't automatically accept the income offered to you by your pension company without first considering what other options are available elsewhere. Different rates of income are offered by different insurance companies, so it's important to shop around to secure the highest income possible.

It may seem an easy option to purchase your annuity from the same provider with whom you built up your pension. However, by taking advantage of the Open Market Option (OMO) you could significantly increase the level of income you receive and therefore your lifestyle in retirement.

With life expectancy levels on the increase and the possibility of new European legislation driving annuity rates downwards, you need to ensure that you obtain the highest possible level of income from your pension.

By shopping around and taking your health into consideration, it's possible to increase your income and give yourself a better standard of living in retirement. ■

TO DISCUSS YOUR INDIVIDUAL REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

Investing for income

How much risk are you prepared to take?

It's important to be able to invest with confidence in uncertain times and maximise your income in a low interest rate environment. If you're planning to invest for income, you need to set yourself goals and be happy with the amount of investment risk you're prepared to take. You also need to work out how you'd like to invest your money.

If you are investing for the short term and want to retain access to your money, you should remain in cash. Even though returns are low, the capital will be secure, and that will be important if you don't want to put any of your money at risk.

If you haven't used your cash Individual Savings Account (ISA) allowance for the tax year 2010/11, you can save up to £5,100 and receive tax-free interest. Interest rates available from these products can vary enormously, as can the regularity with which they are paid. Some accounts may also offer complex terms and conditions, such as additional bonuses.

If you're looking to yield a slightly higher income you need to move away from cash. If you do not wish to take much of a risk, you could consider fixed-interest accounts, usually accessed through a specialist bond fund, which normally pay a better rate of interest than cash in return for a higher risk.

These products, usually known as bonds, mean you effectively loan money to a government or company in exchange for a fixed rate of interest over a predetermined period. The product's face value is returned on a specified future date. Bonds issued by stable governments such as the UK government are regarded as the safest, although the downside is that their low-risk status means they will usually offer a much lower rate of interest than higher-risk bonds.

In the UK, government bonds are known as 'gilts'. There are two main types of gilt – conventional and index-linked, although both are denoted by the interest paid (known as the 'coupon rate'), as well as the date on which they mature. With conventional gilts, the government agrees to pay the holder a fixed cash payment, known as a 'coupon', every six months until the maturity date, at which point the initial sum invested (also known as the 'principal') is returned. Index-linked gilts, meanwhile, take inflation into account, which means both the coupon and the principal will be adjusted in line with the UK retail prices index.

You could also consider corporate bonds, which are slightly riskier but usually generate a higher yield. These mean you lend money to companies in exchange for an agreed rate of interest and the face value of the bond back in the future. Each bond will have a nominal value (usually £100), which is the price that will be paid to you when it reaches the end of its life, in addition to the bond's yield.

Although life spans will vary, they are generally less than ten years. There is, however, no guarantee that the issuing company will keep up with the interest payments or pay the face value on the date of maturity. The likelihood of them honouring their commitments is analysed by specialist ratings agencies on a sliding scale. The most trusted bonds will be awarded AAA status.

If you're happy to take this level of risk, other asset classes you could consider are equity and commercial property. On the equity side, you can buy into companies that are expected to pay a decent income to investors in the form of regular dividends. A more common option is to invest in an equity income fund, whereby you rely on the skills of a specialist fund manager to do the research on your behalf and purchase a portfolio of shares for you.

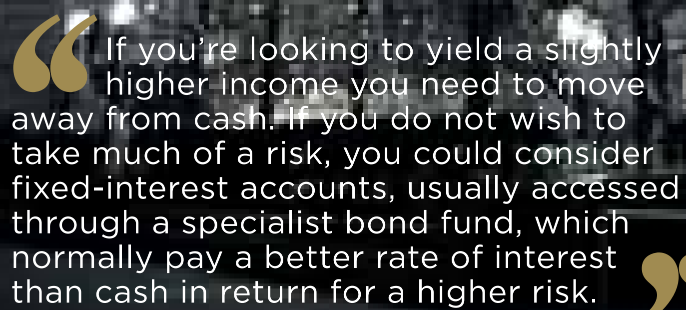
The next area to consider is commercial property. Specialist funds have the capability and financial means to acquire commercial property. The current rental yields paid on the average UK commercial property, as a percentage of the current significantly reduced property values, may be attractive to income-seekers, although capital values could still fall further.

It's also worth remembering investment trusts. This sector has provided a good track record of dividend increases, which is particularly relevant right now when interest rates are at an all-time low and yield is much harder to come by. An investment trust is basically a company listed on the stock exchange that buys and sells shares in other companies rather than producing specific products or services.

Another alternative is guaranteed equity bonds. These promise a stockmarket-linked return if the market rises and the return of your original investment if it falls. However, there are different types of guaranteed equity bonds. Most of the deposit-based products from banks and National Savings & Investments will return your capital in full, but that's not the case with many other providers. ■

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

NO MATTER WHAT YOUR INVESTMENT GOALS ARE, WE CAN WORK WITH YOU TO DEVELOP THE BEST PORTFOLIO FOR YOUR REQUIREMENTS. TO FIND OUT MORE OR TO DISCUSS HOW WE COULD HELP, PLEASE CONTACT US.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Income Drawdown

Your questions answered

These are some of the most commonly asked questions we receive from clients.

Q: What is Income Drawdown?
A: Income Drawdown is an alternative to an annuity. It allows you to draw an income directly from your pension while the fund remains invested.
One of the main features of Income Drawdown is that you keep control of your investments and choose the level of income you draw (within limits).

Q: What age must I be to consider Income Drawdown?
A: Income Drawdown allows an individual aged between 55 and 75 (with transitional rules in place from 22 April 2010 to the 5 of April 2011 increasing the age to 77) to defer the purchase of their pension from an insurance company.
An income is drawn from the fund, and the residual fund remains invested. The maximum income that may be drawn is 120 per cent of the pension that could have been purchased calculated using Government Actuary rates. There is no minimum. Either an annuity or Alternatively Secured Pension (ASP) must be selected at age 75.

Q: In the event I die before the age of 75, what happens?
A: A surviving spouse or dependant currently has three options:

- receive some or the entire remaining fund as a lump sum subject to a 35 per cent tax charge
- continue with Income Drawdown if under age 75, or an ASP if over age 75
- use to fund the purchase of an annuity

Depending on the scheme rules/policy terms, a dependant's pension may be deferred until a later date.

Q: Can I continue to manage my own pension fund?
A: Yes, you can continue to manage and control your pension fund and make all the investment decisions. Providing the fund is not depleted by excessive income withdrawals or poor investment performance, it may also be possible to increase your income later in life.

Q: How much income can I take from an Income Drawdown arrangement?
A: The income that can be taken from an Income Drawdown arrangement can be varied each year between a minimum and a maximum. The minimum is £0 and the maximum is 120 per cent of a pension, calculated according to tables produced by the Government Actuaries Department (GAD).

These tables are based on the amount your fund would buy as an annuity based on your life only and with no allowance for any future increase. The maximum amount needs to be recalculated every five years. After each review you will be advised of the new annual GAD limit, which could be lower or higher than the limit from the previous five years.

The maximum income you can draw can be more than the income from a level; single life annuity bought using the same fund. The maximum is calculated at the start of your drawdown plan, using GAD tables that use your age and 15-year gilt yields to calculate the income available from your fund. The income limits calculated at this point are fixed until the next review, although you should review any income you take more frequently.

As long as you stay within the maximum limit, you can control how much income you take and when you take it. You always need to be aware of the risk that your income withdrawal can deplete your capital. This reduces the capacity for income in the future.

Q: What happens if I add more money into my drawdown account?
A: A review will be triggered if you add more money into your drawdown account from your main pension fund or if you take money out to buy an annuity. Each year you may request that a review takes place on the plan anniversary. This will restart the five-year period. In some cases, funds may also have to be moved out as a result of a divorce court order and this will also trigger a review. You decide how much of your pension you want to move into your drawdown account.

Q: How much can I take as a tax-free lump sum?
A: You can normally take up to 25 per cent of this as a tax-free lump sum and draw a regular income from the rest. There is no minimum withdrawal amount, so you could choose zero income if you wish. Any income is subject to tax at source, on a Pay As You Earn (PAYE) basis. You decide where the remainder of the fund is invested and you should review and monitor the situation regularly.

Q: Can I use my income drawdown fund to buy a lifetime annuity?
A: **Yes, you can use your income drawdown fund to pur**chase a lifetime annuity. If you want to continue drawing an income directly from the fund when you reach your 75th birthday, currently it can continue into an ASP, although income is restricted and death benefits are severely limited. The fund is automatically moved to an ASP if you have not set up an annuity by age 75 – the government plans to abolish ASPs from 5 April 2011.

Q: How could the new retirement rule changes affect me?
A: The government is currently consulting on changes to the rules on having to take a pension income by age 75. This may be important to you if you're coming up to age 75, or if you're deciding between an annuity or Income Drawdown. Under the proposals, there will no longer be a requirement to take pension benefits by a specific age.
Tax-free cash will still normally only be available when the pension fund is made available to provide an income, either by entering Income Drawdown or by setting up an annuity. Pension benefits are likely to be tested against the Lifetime Allowance at age 75. ■

Tax-privileged saving allowance reduced

An alternative approach to restricting pensions tax relief

The cost of tax relief on pension contributions doubled under the previous government to an annual cost of around £19bn by 2008/09. The government confirmed in the Coalition Budget that it is committed to reform of pensions tax relief and would continue with plans that it inherited to raise revenues from restricting pensions tax relief from April 2011.

The government had reservations about the previous plans. It felt that this approach could have unwelcome consequences for pension saving, bring significant complexity to the tax system, and damage UK business and competitiveness. These concerns were shared both by representatives of the pensions industry and by employers.

The June Coalition Budget announced that the government was considering an alternative approach to restricting pensions tax relief, involving reform of existing allowances. A discussion document on the subject 'Restriction of pensions tax relief: a discussion document on the alternative approach' was published in July, inviting views on a range of issues around the precise design of any such regime.

From April 2011 the government has announced the annual allowance for tax-privileged saving will be reduced from its current level of £255,000 to £50,000. Tax relief will be available at an individual's marginal rate. Deemed contributions to defined benefit schemes will be valued using a 'flat factor' of 16. Individuals will be allowed to offset contributions exceeding the annual allowance against unused allowance from the previous three years. For those individuals who see a very significant increase in their pension rights in a specific year, the government will consult on options that enable them to pay the tax charge out of their pension rather than current income.

According to the government, only around 100,000 individuals currently have annual pension savings above £50,000 – around 80 per cent of whom are on incomes above £100,000. The government anticipates that most individuals and employers will look to adapt their pension saving behaviour and remuneration terms following introduction of the new rules.

The lifetime allowance will also be reduced from its current level of £1.8m to £1.5m. The government's intention is that the reduced lifetime allowance will operate from April 2012. It is inviting views on the detail of its approach, including the relative burdens for schemes and employers of implementation in 2011 compared with 2012. ■

Mind the 'pensions gap'

Why every adult in the UK needs to save more to retire comfortably

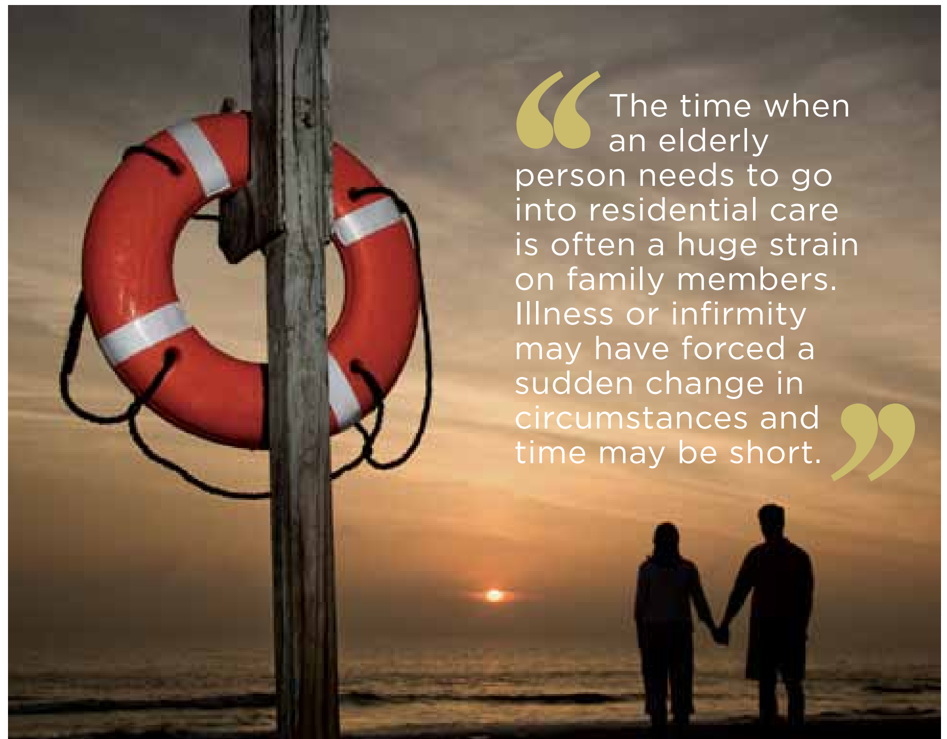
Findings from a study published in September by Aviva, in conjunction with accountants Deloitte, are a wake-up call for individuals and governments across Europe. The study concluded that the UK has the largest pensions gap per person in the whole of Europe and UK adults now need to save an average of £10,300 every year to catch up. Europe's annual pensions gap now stands at £1.6 trillion.

The UK savings shortfall of £10,300 a year is an average based on the 31 million UK adults who are due to retire between 2011 and 2051.

Aviva warns that the problem is more acute for older people who have less time to top up their savings, especially if they intend to retire at age 65. It could also particularly affect those on lower incomes, for whom setting aside money may be more difficult.

The National Association of Pension Funds commented that 'under-saving is a live and growing issue that will impact on more and more people as the UK ages'. Investing from an early age, even a small amount, can make a big difference in closing the gap. ■

TO DISCUSS YOUR INDIVIDUAL REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.



> "The time when an elderly person needs to go into residential care is often a huge strain on family members. Illness or infirmity may have forced a sudden change in circumstances and time may be short."

Estate protection

Safeguarding your home and assets from care costs

The time when an elderly person needs to go into residential care is often a huge strain on family members. Illness or infirmity may have forced a sudden change in circumstances and time may be short.

Under the Community Care Act 1990, local councils have the right, by law, to force the sale of a family home to pay for care costs or to take a charge against a property to be repaid on the eventual sale of the home. This could result in very little being left for the surviving family.

You and your spouse or civil partner should each make a provision in your Wills ensuring that, upon the first death, the deceased's half of the property is placed in trust for your children or other beneficiaries instead of passing directly to the survivor. However, you need to understand the powers that local authorities have to include in the means testing assessment assets that they consider have been subject to 'deliberate deprivation'. This occurs when a resident transfers an asset out of their possession in order to achieve a better position that enables them to obtain assistance.

A trust arrangement keeps any designated property owned by the deceased away from the council's reach. At the same time it allows the surviving spouse or civil partner to continue benefiting from the assets, which may include the family home. On the death of the remaining member of the couple, the assets owned by the trust, together with whatever is left of the assets of the second spouse or civil partner, can be given to the surviving family.

The majority of people own their homes jointly which means that, on first death, the survivor would then own 100 per cent of the full property value. By changing the way you own your home to what is known as 'Tenants In Common', combined with the appropriate trust planning, this could effectively ensure that your property is fully protected should either of you enter into care. In addition, by changing the way your assets are invested and held, this could also ensure that your cash or liquid assets are fully protected from future long-term care costs. ■

THE RULES SURROUNDING THE ABOVE ARE LIABLE TO CHANGE AND EACH CASE WOULD BE ASSESSED BY THE LOCAL AUTHORITY ON A CASE-BY-CASE BASIS. TO DISCUSS HOW WE COULD HELP YOU PRESERVE YOUR WEALTH FOR FUTURE GENERATIONS, PLEASE CONTACT US TO DISCUSS YOUR OPTIONS.

Company cars

Encouraging drivers to choose cleaner and more efficient vehicles

From April 2011, company car tax is to be reformed to encourage drivers to choose cleaner and more efficient cars. The threshold for the 15 per cent rate of tax will be reduced by 5g/km of CO2 - so it will apply to cleaner cars emitting between 121g/km and 129g/km of CO2.

The changes were announced in the emergency Budget announced by the Chancellor George Osborne on June 22 2010. It comes after the BVRLA called for the government to scrap the 3 per cent surcharge on diesel cars for good.

The percentage of the cars price subject to tax will continue to increase by one percentage point with every 5g/km of CO2 up to 35 per cent. The cap on car list prices used to work out the taxable benefit from company cars will also be abolished, as will discounts for early uptake Euro 4-standard diesel cars, higher-emitting hybrid cars and alternative fuel company cars.

The June 2010 emergency Budget from the new Con/Lib Dem government confirmed many of the previously announced changes to company car tax to encouraging the purchase and lease of the lowest emitting cars.

The cap on car list prices of £80,000 used to calculate the benefit will also be removed in April 2011.

From April 2012 the 10 per cent band for cars emitting 120g CO2 per km or less will be removed and the system of bands will be extended so that they increase by one percentage point with each 5g CO2 per km increase in emissions from 10 per cent. The 10 per cent band will apply to cars that emit 99g CO2 per km or less. ■

The changes to the band:

2009/10		2010/11		2011/12	
Emissions g/km %	P11d value	*Emissions g/km %	P11d value*	Emissions g/km %	P11d value*
120	10	99-120	10	99-120	10
121 – 139	15	121- 134	15	121-129	15
140 – 144	16	135 – 139	16	130-134	16

* +3% for diesel cars

Choosing the right life assurance

How to protect your family from financial hardship

Choosing the right life assurance will enable you to protect your family's lifestyle in the event of your premature death, help them cope financially and protect them from financial hardship.

That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

So what are your options?

The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period.

There are several types of term assurance:

Level term assurance – this offers the same payout throughout the life of the policy, so your dependants would receive the same amount whether you died on the first day after taking the policy out or the day before it expired. This tends to be used in conjunction with an interest-only mortgage, where the debt has to be paid off only on the last day of the mortgage term.

Decreasing term assurance – the payout reduces by a fixed amount each year, ending up at zero at the end of the term. Because the level of cover falls during the term, premiums on this type of insurance are lower than on level policies. This cover is often bought with repayment mortgages, where the debt falls during the mortgage term.

Increasing term assurance – the potential payout increases by a small amount each year. This can be a useful way of protecting the initial amount against inflation.

Convertible term assurance – the policyholder has the option of switching in the future to another type of life assurance, such as a 'whole-of-life' or endowment policy, without having to submit any further medical evidence.

Family income benefit – instead of paying a lump sum, this offers the policyholder's dependants a regular income from the date of death until the end of the policy term.

Lifetime protection

The other type of protection available is a whole-of-life assurance policy designed to provide you with cover throughout your entire lifetime.

The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die.

Some plans also offer cover for additional benefits, such as a lump sum that is payable if the policyholder becomes disabled or develops a specified illness.

Whole-of-life assurance policies are often reviewable, usually after ten years. At this point the insurance company may decide to put up the premiums or reduce the cover it offers. ■

WE TAKE THE TIME TO UNDERSTAND YOUR UNIQUE NEEDS AND CIRCUMSTANCES SO WE CAN PROVIDE YOU WITH THE MOST SUITABLE PROTECTION SOLUTIONS IN THE MOST COST-EFFECTIVE WAY. TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US.

> "The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period."

Pension planning

What are the options available both to you and to your employees?

If you're a business owner there are many different pension options available both to you and to your employees. We can help you navigate this complex area and advise you on how to make sure that you choose the most suitable pension schemes available for your particular requirements.

Offering employee benefits such as pensions is a very effective solution to attract and retain good staff. If you currently employ five or more staff, you need to offer them access to a Stakeholder pension, unless you are exempt, for example, if you have an existing qualifying scheme. You don't have to actually contribute yourself, but you must facilitate employee contributions.

In 2012 the UK government will introduce a new pension scheme to the UK. Previously known as Personal Accounts, the new name will be The National Employment Savings Trust (NEST). The initiative is part of an overall general pensions reform strategy and will create a significant change in the way people save for their pensions and retirement in the UK.

For the first time employees and employers will be forced to contribute to a NEST pension on behalf of the employee, unless they choose to opt out or unless they already contribute to an alternative qualifying workplace pension.

The government created the scheme to make it easier for mainly low to middle income workers to access an employer sponsored pension scheme or workplace pension.

If you are the owner of a business, pensions can be a very tax-efficient way of drawing money from the business. Pensions shouldn't be dismissed without careful consideration. However, if you don't like the idea of investing in a pension, talk to us about other possible alternatives.

If you are currently in the early days of building your business, you should be mindful of the dangers of relying on this entirely to support your retirement years. One advantage of having your own pension provision is that you can build up wealth independently of your business, essential if your business isn't as successful as you had planned.

Pension funds do not just invest in stocks and shares. Most plans allow you to invest in all the main asset classes, including cash, fixed interest, property and shares, allowing you to tailor your plan to meet your own preferences. Self-Invested Personal Pensions can offer even greater choice for the more sophisticated investor. ■

Income Drawdown

Retaining investment choice and control over your retirement income

Income Drawdown (or Unsecured Pension) is the name given to the facility that enables you to continue to keep your retirement savings invested and take an income each year rather than buying an annuity. You decide when to purchase your pension, enabling you to time this when annuity rates are at their most favourable.

Income Drawdown enables you to retain investment choice and control. If investment growth is achieved on the residual funds, combined with rising annuity rates that increase with age, a higher pension may also be purchased than would otherwise have been secured form the outset.

When considering Income Drawdown you should seek professional advice. This is a complex area of retirement planning and there is no income guarantee. Regular reviews are required and the process can be expensive and may not be cost effective for smaller funds.

High income withdrawals including poor investment performance could also reduce the fund and income, or deplete it altogether. ■

Isn’t it time you had a financial review?

We’ll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

Financial wealth check

How to get your money into shape for the New Year

The start of the New Year is rapidly approaching and for many this is a time to start setting financial goals. But before you contemplate the important factors in achieving your financial success, follow our New Year wealth check and start by making sure you keep your tax bills to a minimum and protect your wealth from increasing taxation.

Arrange your finances tax-efficiently

We all pay tax on our own individual earnings and assets. By taking advantage of a number of reliefs and allowances offered to married couples and civil partners, it is possible to reduce the total amount of tax you pay as a couple if you arrange your finances correctly.

Consider switching income-producing assets, such as shares, investment funds, bank and building society accounts and jointly owned property, into the name of the partner who pays the lower rate of tax. This way, you pay less tax on dividends, rent and savings interest. The general rule that jointly owned income is taxed 50/50 can be altered by making a specific election where there has been a genuine outright gift of assets. If you are unmarried and transferring assets, you should be aware this could potentially trigger a capital gains tax (CGT) bill.

Take advantage of jointly owned assets

For assets likely to trigger a capital gain (such as a property or shares), it may be worth owning them jointly. Much will depend on how much annual income they generate, when you are likely to sell them and the size of the potential gain.

Basic-rate taxpayers pay CGT at 18 per cent, rather than the higher 28 per cent rate. But couples need to be careful. When calculating CGT, the gain realised is added to the income earned in that tax year; if these two combined push you into the higher tax bracket you will pay the 28 per cent rate on the gain. People realising assets, such as a second home, are usually better off jointly owning the asset to take advantage of two CGT allowances, as in practice either partner, regardless of earnings, often pays the higher CGT rate.

Check you're paying the right amount of tax

It's important to know how to check you're paying the right amount of tax, especially following the announcement that HMRC's computers have led to thousands of people paying the wrong tax through their tax code. Even if you are not one of the six million taxpayers who received a letter saying tax has been over or underpaid, it's still important to check your code.

If you are over 65, you should check that you are receiving the appropriate higher personal allowances. Those aged 65-74 can earn £9,490 before tax is charged, rising to £9,640 for those 75 and over. If you're married and aged 75 and over, you are also entitled to the £6,965 Married Couple's Allowance. The standard personal allowance is currently £6,475.

Plan to reduce a future Inheritance Tax bill

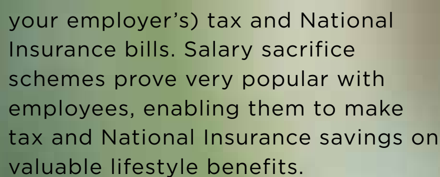
There are a number of exemptions allowing you to reduce a future Inheritance Tax (IHT) bill. Everyone has an annual gift exemption worth £3,000, which removes this money from your estate regardless of how long you live (if this is not used in the previous year you can carry it forward to the next, so effectively you could gift £6,000). In addition, grandparents can give £2,500 to each grandchild who marries; parents can give £5,000. Taxpayers can also make regular gifts out of income, which will be IHT-free. These can be paid monthly, annually or even termly. With other gifts, people have to survive the transfer by seven years for it to be disregarded for IHT purposes.

Claim for the extra costs involved in running your business

If you are self-employed you can claim for the extra costs involved in running your business from home. This includes lighting, heating, council tax, property insurance, repairs and even mortgage interest. These costs can be offset against profits, reducing your overall tax bill. You should be aware that if a part of your property, even a single room, is devoted entirely to your business then there maybe a CGT charge when the property is sold, so this needs to be considered before a claim is made.

Make tax and National Insurance savings on valuable lifestyle benefits

Salary sacrifice is a contractual arrangement whereby an employee gives up the right to receive part of their cash remuneration, usually in return for their employer's agreement to provide some form of non-cash benefit. It's possible to give up part of your salary and in return receive non-taxable benefits, such as childcare vouchers, reducing your (and



your employer's) tax and National Insurance bills. Salary sacrifice schemes prove very popular with employees, enabling them to make tax and National Insurance savings on valuable lifestyle benefits.

Completing your financial wealth check

Finally, make sure that you fully maximise your ISA (Individual Savings Account) and pension contributions, which can be extremely tax-efficient. You can shelter up to £10,200 in an ISA – of which half can be in cash. This means a couple could effectively currently invest £20,400 this financial year, on which they pay virtually no tax on income or growth.

The government has announced that from April 2011 the annual pension allowance for tax-privileged contributions will be reduced from its current level of £255,000 to £50,000. ■

OUR EXPERTISE CAN HELP YOU DEVELOP THE MOST APPROPRIATE WEALTH STRATEGIES TO ENABLE YOU TO ACHIEVE YOUR FUTURE FINANCIAL GOALS. IF YOU WOULD LIKE TO DISCUSS YOUR CURRENT REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

Strategies to boost your retirement

10 ways to build a bigger pension income

Look at some of the ways in which you could secure a financially brighter retirement.

1. Start saving for your retirement early

It may seem really obvious but the younger you are when you start a pension, the better, because it means you've got more time to make contributions and there is more time for those invested contributions to grow. According to a study published in September by Aviva, in conjunction with accountants Deloitte, the UK has the largest pensions gap per person in the whole of Europe, and UK adults now need to save an average of £10,300 every year to catch up.

2. Join your employer's occupational pension scheme

If your employer offers membership of an occupational pension scheme, join it. These are employer-run schemes that have trustees who are responsible for the schemes being run properly, legally and fairly. If your employer has a scheme, it is almost always in your interests to join because of the employer contribution, which is in effect a tax-free benefit. More than one million people who could join company schemes don't, according to the National Association of Pension Funds.

3. Take advantage of tax relief from HMRC

Make the most of tax breaks. Tax relief reduces your tax bill or increases your pension fund. Anyone, including children and non-taxpayers, can receive tax-relief from HM Revenue & Customs (HMRC) to help increase their pension. The way you get tax relief on pension contributions depends on whether you pay into an occupational, public service or personal pension scheme. Contributions attract basic-rate tax relief. So £80 paid into a pension is automatically increased to £100 before costs. High earners can achieve the same effect by paying in £60, subject to complex and changing restrictions.

4. Increase the control over where you invest your money

Unlike most traditional personal pensions, a Self-Invested Personal Pension (SIPP) offers you different investment options and gives you more choice and control over where you can invest your money. There are significant tax benefits. The government contributes 20 per cent of every gross contribution you pay. If you're a higher or additional rate taxpayer, the tax benefits could be even greater.

When you wish to withdraw the funds from your SIPP, currently between the ages of 55 and 75, you can normally take up to 25 per cent of your fund as a tax-free lump sum. The remainder is then made available to provide you with a taxable income. As with all investments, the value of the fund you have invested can go down as well as up and you may not get back as much as you invest. The increased cost and control of a SIPP will generally come with higher charges, so for individuals not requiring the additional flexibility, a traditional personal pension may be more appropriate.

5. Pay extra National Insurance contributions

Consider paying extra National Insurance contributions (NICs) to increase the state pension. This is most likely to benefit women who have taken time off work, perhaps to bring up children. However, you need to beware of means tests. There could be risks associated with buying back missing years of NICs and you should always obtain professional financial advice. Although buying back missing years can be a good deal, the government won't go out of its way to tell people about this with its finances stretched.

6. Make additional contributions to increase your retirement fund

Topping up an Occupational Pension Scheme pension is one of the simplest and most effective ways of cutting your tax bill and increasing your retirement fund. An Additional Voluntary Contribution (AVC) is an extra pension contribution you can make if you are a member of your

employer's Occupational Pension Scheme. AVCs offered by an employer's scheme are sometimes referred to as 'In-House AVCs'. Some AVC plans attract 'matched' contributions from the employer and you should check if your employer offers this benefit.

7. Take advantage of the Open Market Option (OMO)

When you are nearing retirement, your pension provider will usually send you a quotation regarding your pension scheme. It's important you take advantage of the Open Market Option (OMO) to maximise your pension fund. The annuity offered by your pension company may not be the most competitive scheme and choosing the OMO could considerably increase the value of retirement income. The OMO is a legal right to buy a pension annuity from any provider on the market. This can apply to both a standard annuity and a with-profits annuity. Choosing the right pension annuity is extremely important, because once purchased, annuities cannot be switched to another annuity provider, changed to a different type of annuity or altered in any other way

8. Buy an annuity that pays out a higher income

If you enter retirement with a medical condition, or if you smoke, you could be eligible for an enhanced or impaired-life annuity. They work on the basis that you will have a shorter life-span than someone in a better state of health, essentially enabling you to use up your pension fund more quickly by giving you access to more money each year. It is always important to obtain professional financial advice, as the decisions you make determine the income you will receive for the rest of your life and you can't correct bad decisions later on.

9. Different retirement income alternatives

There are alternatives to purchasing annuities, including income drawdown, which enables older people to withdraw small amounts of their retirement money annually as income and then leave the rest invested in the stock market with the aim of achieving better returns, although this is not guaranteed. Another option is 'phased retirement', where, rather than converting your entire fund into an annuity at the same time, you take the benefits of your pension gradually over a period of time, either by setting up an annuity or moving more money into income drawdown. These alternatives are not suitable for everyone. Therefore it is important, if you would like to know more, to obtain professional advice.

10. Get advice about the annuity rule changes

It has long been the case that anyone with a personal or company 'money purchase' pension had to purchase an annuity with their pension fund by the age of 75 (current temporary measures to age 77). But the Chancellor of the Exchequer, George Osborne, announced during the Coalition Budget 2010 the removal from April 2011 of the effective obligation to purchase an annuity by age 75. Consultations on these proposed changes are continuing and final rules are awaited.

This is a major change that will give many people more choice about how they make use of their money, but there will still be restrictions. You will almost certainly have to meet a minimum income requirement in order to benefit fully from the new flexibility. However, the changes will not mean the end of the annuity and, for most people, buying one could still remain the best way of securing a guaranteed income for life. ■

IF YOU'RE LOOKING TO ACCUMULATE WEALTH IN ORDER TO ENJOY YOUR RETIREMENT YEARS, PLEASE CONTACT US TO DISCUSS YOUR PARTICULAR SITUATION.

You've protected your most valuable assets.

But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Spending Review 2010

The Chancellor sets out his cost savings for the next four years

The Chancellor of the Exchequer, George Osborne delivered on 20 October – the 'Spending Review 2010' – using his speech to announce the key headlines of the Spending Review – with one of the stand-out figures being a further £7bn cut in welfare spending.

The Chancellor says the main Whitehall departments will make cost savings of £6bn in how they are run over the next four years and the Office for Budget Responsibility forecasts that 490,000 public sector jobs will go over the four years of the Spending Review period. Most will be through natural turnover, although there will be 'some redundancies'.

The Spending Review is a Treasury-led process to allocate resources across all government departments, according to the government's priorities. Spending Reviews set firm and fixed spending budgets and it is then up to each department to decide how best to manage and distribute this spending within their areas of responsibility.

In addition to setting departmental budgets, 'Spending Review 2010' also examines non-departmental spending that cannot be firmly fixed over a period of several years, including social security, tax credits, some elements of local authority spending and spending financed from the proceeds of the National Lottery.

Spending Reviews have been an integral part of governmental planning since the late 1990s. Prior to their introduction, departmental budgets were set on a year-by-year basis which made multi-year planning more difficult.

'Spending Review 2010' covers the four years from 2011/12 to 2014/15. ■

KEY POINTS AT-A-GLANCE

The key points from The Chancellor of the Exchequer, George Osborne's 'Spending Review 2010':

- About 490,000 public sector jobs likely to be lost
- Average 19 per cent four-year cut in departmental budgets
- Structural deficit to be eliminated by 2015
- £7bn in additional welfare budget cuts
- Police funding cut by 4 per cent a year
- Retirement age to rise from 65 to 66 by 2020
- English schools budget protected; £2bn extra for social care
- NHS budget in England to rise every year until 2015
- Regulated rail fares to rise 3 per cent above inflation
- Bank levy to be made permanent

Spending Review 2010

Finances set between 2011 and 2015 based on government figures

Current spending includes items such as salaries, hospital medicines, and school text books. Capital spending includes assets such as school buildings, roads and bridges.

Business, Innovation and Skills

Annual budget: £21.2bn
Sending Review 2010 cut: Current spending down 25 per cent; capital spending down 52 per cent

Administration costs to be cut by £400m with 24 quangos being disbanded. Train to Gain programme to cease. University teaching budget to be cut by 40 per cent and further education budget to fall by 25 per cent. The science budget to be frozen - in cash terms - rather than cut as had been feared. Funding for 75,000 adult apprenticeships a year.

Cabinet Office

Annual budget: £2.6bn
Sending Review 2010 cut: Current spending up 28 per cent; capital spending down 28 per cent.

Support for citizenship and "big society" projects. Cabinet Office officials to move into Treasury. Civil List cash funding for Royal Household to be frozen next year. New system of funding for Royal Household from 2013.

Communities and Local Government

Annual budget: £33.6bn
Sending Review 2010 cut: Local Government - current spending down 27 per cent; capital spending down 100 per cent: Communities - current spending down 51 per cent; capital spending down 74 per cent

Councils will see a 7.1 per cent annual fall in their budgets. But ring-fencing of local authority revenue grants will end and councils will have freedom to borrow against their assets. Funding for social housing to be cut by more than 60 per cent, with new tenants having to pay higher rents. But the government hopes these changes will free up funds to build 150,000 new affordable homes over the next four years.

Culture, Media and Sport

Annual budget: £2bn
Sending Review 2010 cut: Current spending down 24 per cent; capital spending down 32 per cent

Administration costs to be cut 41 per cent while core arts programmes will see a 15 per cent fall in funding. Free museum entry to remain in place. BBC licence fee to be frozen for next six years. Corporation will also fund World Service and BBC Monitoring. Adds up to equivalent of 16 per cent savings over the period.

Defence

Annual budget: £46.1bn
Sending Review 2010 cut: Current spending down 7.5 per cent; capital spending down 7.5 per cent

The Royal Air Force and Royal Navy will lose 5,000 jobs each, the Army 7,000 and the Ministry of Defence 25,000 civilian staff. The Harrier jump jets and the Ark Royal aircraft carrier are being taken out of service while the planned Nimrod spy planes will be cancelled. Key spending decision on Trident to be delayed until 2016.

Education

Annual budget: £57.6bn
Sending Review 2010 cut: Current spending down 3.4 per cent; capital spending down 60 per cent

Five quangos to be abolished. But direct funding to schools in England is to be protected. Their budget will rise 0.1 per cent in real terms each year, taking funding from £35bn to £39bn. But spending on school buildings to fall 60 per cent. Confirmed £2.5bn "pupil premium" for teaching for disadvantaged pupils. Educational Maintenance Allowances to be replaced. Sure Start budget to be protected in cash terms.

Energy and Climate Change

Annual budget: £3.1bn
Sending Review 2010 cut: Current spending down 18 per cent; capital spending up 41 per cent

Plan for tidal barrage on the Severn estuary cancelled. But £200m funding for wind power development and £1bn for green investment bank.

Environment, Food and Rural Affairs

Annual budget: £2.9bn
Sending Review 2010 cut: Current spending down 29 per cent; capital spending down 34 per cent. Investment to continue in flood defences - £2bn over period to 2015.

Foreign Office

Annual budget: £2.2bn
Sending Review 2010 cut: Current spending down 24 per cent; Capital spending down 55 per cent. Number of Whitehall-based diplomats reduced.

“The Spending Review is a Treasury-led process to allocate resources across all government departments, according to the government’s priorities. Spending Reviews set firm and fixed spending budgets and it is then up to each department to decide how best to manage and distribute this spending within their areas of responsibility.”

Health
Annual budget: £106.4bn
Sending Review 2010 cut: Current spending up 1.3 per cent; capital spending down 17 per cent

The NHS in England budget to increase by 0.4 per cent over the next four years. New cancer drug fund to be provided. But £20bn in efficiency and productivity savings sought in NHS by the end of the parliament. An extra £2bn for social care by 2014/15.

Home Office
Annual budget: £10.2bn
Sending Review 2010 cut: Current spending down 23 per cent; capital spending down 49 per cent

Police budget cut by 4 per cent a year, focused on bureaucracy rather than manpower. Aim to maintain "visibility and availability" of officers on beat. UK Border Agency budget to fall 20 per cent. Counter-intelligence budget to fall 10 per cent.

International Development
Annual budget: £7.7bn
Sending Review 2010 cut: Current spending up 36 per cent; capital spending up 20 per cent

The overseas aid budget is to be protected from cuts but not the department's other costs. Budget to rise to £11.6bn over four years to meet UN aid commitment. But aid to China and Russia is to stop and there will be a reduction in administration costs.

Justice
Annual budget: £9.7bn
Sending Review 2010 cut: Current spending down 23 per cent; capital spending down 50 per cent

Plan for new 1,500-place prison to be cancelled. 3,000 fewer prison places expected by 2015. £1.3bn capital investment in prison estate.

Northern Ireland/Scotland/Wales
Annual budget: £55.5bn
Sending Review 2010 cut: Scotland's block grant to fall by 6.8 per cent by 2014/5. Central funding for Wales is to be cut by 7.5 per cent - the Welsh Assembly Government says its budget will be cut by £1.8bn in real terms over four years. Northern Ireland funding to be reduced by 6.9 per cent over four years.

Transport
Annual budget: £13.6bn
Sending Review 2010 cut: Current spending down 21 per cent; capital spending down 11 per cent

£30bn set aside for capital spending, including £500m for Tyne and Wear Metro and Tees Valley bus network. Crossrail project to go ahead in London. Rise in regulated cap on rail fares to 3 per cent above inflation for three years from 2012.

Treasury
Annual budget: £4.4bn
Sending Review 2010 cut: Current spending to be cut by 33 per cent, capital spending to be cut by 30 per cent.

Bank levy to be made permanent. £900m to target tax evasion. £1.5bn in compensation to Equitable Life policyholders after it's near collapse. 15 per cent cut in funding for Revenue and Customs.

Work and Pensions
Annual budget: £9bn in departmental spending
Separate welfare and pensions budget: £192bn

The State pension age for men is to start rising from 65 in 2018 - six years earlier than planned - and reaching 66 by 2020. Rise in retirement age for women to accelerate, also reaching 66 by 2020. The measures combined will save £5bn a year. Reform of public sector pensions to save £1.8bn by 2015, with employees likely to contribute more. Winter fuel allowance, free bus passes and TV licences for 75-year-olds protected. Cuts to child benefit for higher rate taxpayers to generate £2.5bn. £2bn investment in new universal credit. Weekly child element on child tax credit to rise by £30 in 2012 and £50 by 2012.

Sending Review 2010 cut: A further £7bn in welfare savings planned on top of £11bn already announced. A new 12-month time limit on the employment and support allowance could see an estimated 200,000 claimants moved onto jobseekers allowance and see their support reduced. Proposed 10 per cent cut in council tax benefit budget. Under-35s only able to claim housing benefit for a room rather than a whole property. Maximum savings award in pension credit to be frozen for four years. Increased working hours threshold for working tax credits for couples with children. New total benefits cap per family.

The business guide

Businesses will receive at least £150m in government funding to help them access loans and equity investments over the next four years. The additional funding will ensure the small firm's loan guarantee scheme, called the Enterprise Finance Guarantee, will continue for four years.

Further monies will be made available to 'small businesses with growth potential', the Treasury said. This may signal further funding the Enterprise Capital Funds scheme or even possible public involvement in the high street bank's proposed £1.5bn Business Growth Fund.

Planned Regional Growth Fund (RGF) increased from £1bn to £1.4bn but it will be invested over three years rather than two. The money will be available for bids from the soon to be established Local Enterprise Partnerships to fund local economic development projects. It in part replaces the £1.4bn annual funding of the nine English regional development agencies. Eight of these will cease from 2012.

Reform of the way European Regional Development Funding is developed in England, linking it wherever possible with the Regional Growth Fund to maximise impact.

Up to £200m available a year by 2014 to fund an 'elite network of research and development intensive technology and innovation centres'.

Closure of the £1bn Train to Gain workplace training scheme – to be replaced by an alternative small and medium sized business scheme.

£4.6bn science budget ring-fenced so that if efficiency savings are made, spending will remain flat before inflation.

£150m Higher Education Innovation Fund - designed to stimulate knowledge transfer between universities and business - to be overhauled.

The Business Department overall has to cut its budget by 25 per cent, made up of 40 per cent saving from changes to university teaching funding and an average 16 per cent savings from the other areas like business support. ■

Spending Review 2010

Your questions answered

How could the announcements made by the Chancellor of the Exchequer, George Osbourne during the 'Sending Review 2010' affect your finances over the next four years? We answer your questions.

Q: Why are the 'Sending Review 2010' cuts necessary?

A: The government says the cuts are necessary to reduce the record deficit. The Chancellor of the Exchequer, George Osborne says the UK's public debt interest repayments now total £120m a day, or £43bn a year. The government says the cuts will allow it to reduce the public debts and reduce debt interest payments by £5bn a year by 2014.

Q: What is the total cost saving announced across government departments?

A: The Chancellor of the Exchequer, George Osborne announced the main Whitehall departments will make cost savings of £6bn in how they are run over the next four years. He says the Office for Budget Responsibility forecasts that 490,000 public sector jobs will be shed over the four years of the Spending Review period. Most will be through natural turnover, although there will be "some redundancies".

Q: How will individual budgets be reduced across departments?

A: On average over the next four years departments will have their budgets cut by 19 per cent on average. The Foreign Office will see its budget reduced by 24 per cent. The Home Office will be subject to cuts of 6 per cent, with police spending falling by 4 per cent each year. The budget at HM Revenue and Customs will also reduce by 15 per cent.

Q: What are the potential impacts on welfare payments?

A: The government says it will save an extra £7bn from that set out in the June budget. A big saving for the government is a time limit on Employment and Support Allowance. This is a payment to people whose ability to work is limited by disability or illness. Payment will be limited to one year for those who are able to do some work and whose payment is based on their National Insurance contributions. This allowance has been replacing incapacity benefit.

From 2013, child benefit will be withdrawn from families in which one or both parents are higher-rate taxpayers - earning more than £44,000 a year. If both parents earn less than £44,000, they will continue to receive child benefit. But families with one main earner on, for example, £45,000, will see their benefit stopped. This is estimated to save £2.5bn.

Other changes include making couples with children work at least 24 hours a week between them in order to be eligible for working tax credit. And the percentage of childcare claimable under the family element of working tax credit will be reduced from 80 per cent to 70 per cent, saving a further £400m.

Universal benefits for pensioners such as free eye tests, free prescription charges, free bus passes, and free TV licences for the over 75s will remain. Winter Fuel Payments will remain as budgeted for by the previous government.

In the longer term the government plans to introduce of 'universal benefit', which would replace the current system of Jobseekers Allowance, income support and employment support allowance with a single benefit in an attempt to simplify the system. The chancellor says setting this up will initially cost about £2bn.

Q: Will the state pension age be changed?

A: The state pension age for both men and women will rise to 66 by 2020. The chancellor says this will save more than £5bn a year. The government argues that the change is vital because of the UK's ageing population.

Q: Is the NHS budget being increased?

A: The health budget in England will rise by £10bn by 2014 to £114bn, but that only amounts to 0.1 per cent annual rises once inflation is taken into account. The rises will be more than off-set by increasing demands from factors such as obesity, the ageing population and the cost of new drugs.

Q: Will school spending really be protected?

A: The Treasury has said the schools budget will go up by 0.1 per cent in real terms each year. This is a rise of £3.6bn in cash terms, but means less than £200m on top of inflation by 2015, even though the new budget will include a yearly £2.5bn pupil premium for schools with disadvantaged pupils.

Schools will still be expected to make £1bn of 'procurement and back office' savings, and teachers will face a pay freeze. And even though the overall budget will increase, some schools may still face budget cuts, depending on the way the pupil premium and the reallocated pots of national funding are distributed.

In addition, schools will also be subject to a 60 per cent cut in capital spending across the DfE, and a 7 per cent cut, each year, to local authorities, which provide peripheral services, such as transport for children with special educational needs, or after school clubs.

Q: What are the affects on social housing?

A: New tenants will face higher rents at 80 per cent of the market rate, though current tenants will see no change. Rents are also expected to rise for new tenants of council housing.

Q: How will banks be targeted?

A: Lenders will face a permanent bank levy, the purpose of which is to encourage the banks to take fewer risks in how they fund themselves and will be placed on that part of a bank's balance sheet which regulators and HM Revenue and Customs believe poses a systemic risk. This levy differs from the previous announcement for a 'one-off bonus tax'.

Q: What was the impact on transport?

A: £30bn will be invested in new transport projects over the next four years. Schemes that will go ahead include a new suspension bridge over the River Mersey at Runcorn, an upgrade to the Tyne & Wear Metro, and confirmation that the Crossrail project will continue in London.

Many rail passengers will see a rise in ticket prices which follows the announcement that caps on regulated rail fairs, essentially those within peak hours, will rise to 3 per cent above the RPI rate of inflation for three years from 2012.

Absolute return funds

Achieving positive growth in bear as well as bull markets

During both bear as well as bull markets, absolute return funds aim to achieve positive growth. They offer ordinary investors access to a range of sophisticated investment techniques and seek to deliver a positive (or 'absolute') return every year regardless of what is happening in the stock market.

These funds deploy many of the same investment tools, such as futures, as those used by hedge funds, the objective being to provide a regular return above what is available through a cash savings account but with less risk than a standard stock market fund.

More adventurous investors use them as a core holding for their portfolio while buying more aggressive funds alongside them. With their potential to provide real growth, but more smoothly than traditional funds, they also appeal to more cautious investors.

Funds traditionally buy assets that they aim to sell later at a higher price, with any profit reinvested in the next idea. However, the stock market isn't always rising. Two events in the last ten years, the dotcom crash and the credit crunch, caused significant setbacks in the markets, when most traditional funds fell in value.

Absolute return funds aim to make money when prices fall and reduce overall volatility by using more sophisticated investment techniques such as shorting. However, the success of this strategy is heavily dependent on the skill of the fund manager. Not only must they decide which stocks they think will rise in value, but also which will fall. The manager's decisions will therefore have the greatest influence on returns, rather than the direction of the market.

Instead of just buying and holding shares that the fund manager thinks will increase in value, an absolute return manager is able to take positions that will make the fund money if a particular share actually falls in value. In addition, managers can invest in a mixture of shares, bonds or cash accounts, all with the aim of giving a smoothed return to the investor.

In a quickly rising stock market the majority of absolute return funds will underperform traditional funds but, when markets are tough, in theory they can still deliver annual gains. Performance between absolute return funds will vary as different managers employ different strategies and take their own view of the market. Some target higher returns than others and so necessarily take more risk, and not all absolute return funds are the same. ■

TO DISCUSS HOW WE CAN HELP YOU WITH YOUR INVESTMENT STRATEGY, PLEASE CONTACT US FOR FURTHER INFORMATION.

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