Issue **102**

"Let us make our future now,
and let us make our dreams tomorrow's reality."
Malal Yousafzai

INSIDE TRACK

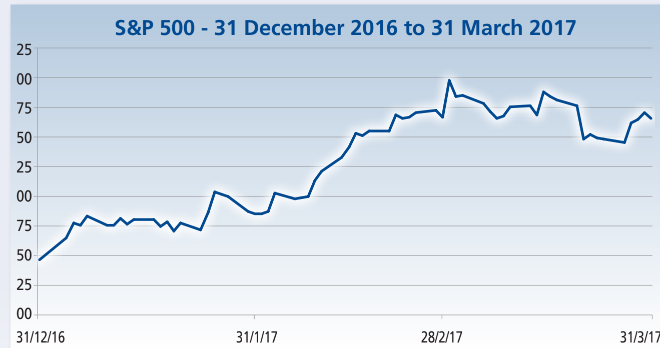
Annual Client Competition Update

IT HAS BEEN AN AMAZING START TO OUR ANNUAL CLIENT competition with stock markets around the world reaching new highs within the first three months of the year.

For this year's competition we asked you to predict at what level the US blue chip index, the S&P 500, would be at the end of 2017 by 2 decimal places.

From 1 January to 31 March, the S&P 500 climbed 104.89 points, 4.44% (on price only) – you can see the rise in the chart on the right.

Much remains uncertain politically and economically in the US and with nine months still to observe, it will be interesting to see how the S&P performs and our competition progresses over the period.



FSCS limit returned to £85,000

ON 30TH JANUARY 2017, THE AMOUNT THE Financial Services Compensation Scheme (FSCS) protects for deposits increased by £10,000, consequently returning to its original level of £85,000 and bringing the UK into line with the EU-wide deposit protection limit of €100,000.

The protection provided by the Scheme for deposits in banks, building societies and credit unions was reduced to £75,000 in July 2015, when sterling was stronger.

FSCS Chief Executive Mark Neale said the new limit, covering banks, building societies and credit unions, would protect about 98% of the UK public.

Joint accounts have also benefited from the increase, with a new limit of £170,000.

Free tax tables

WITHIN THIS ISSUE, YOU WILL FIND YOUR complimentary copy of the Lowes tax tables.

If you would like additional copies for yourself, family, friends or colleagues, please call us on **0191 281 8811** or email **enquiry@Lowes.co.uk**

The new pound in your pocket

DON'T GET CAUGHT OUT BY CHANGES TO THE POUND coin, five pound notes and ten pound notes during the course of this year.

The Bank of England has already introduced new longer lasting and more secure polymer £5 notes. Now it is phasing out the old style £10 note, while the Royal Mint is phasing out round pound coins as well. The £20 note will follow in their stead by 2020.

Be sure to dig out any old notes and coins you may have lying around in your home and spend them while you can, before it is too late.

New monetary replacements

£1 coin

28 March 2017	New 12-sided coin issued
15 October 2017	Old round coins no longer legal tender

£5 note

13 September 2016	New £5 note issued
5 May 2017	Old £5 note no longer legal tender

£10 note

September 2017	New £10 note issued
May 2018	Provisional date for the old £10 to no longer be legal tender.

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Lowes Financial Management

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Lowes Financial Management

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Branch, telephone, postal, online	£1+	Coventry Building Society	Easy Access Saver (4)	0.85%	coventrybuildingsociety.co.uk
Online	£1,000+	Charter Savings Bank	Easy Access - Issue 3	1.01%[1]	www.chartersavingsbank.co.uk
Accounts with first year bonus					
Online	£1+	Skipton Building Society	Limited Edition Online Bonus Saver	1.02%[2]	www.skipton.co.uk
Fixed rate bonds					
Online	£1,000+	Paragon Bank	1 Year Fixed Rate	1.51%	www.paragonbank.co.uk
Online	£1,000+	Oak North Bank	2 Year Fixed Term Deposit Account	1.71%	www.oaknorth.com
Online	£1,000+	Oak North Bank	3 Year Fixed Term Deposit Account	1.91%	www.oaknorth.com

Notes: [1] Rate drops to 0.10% if balance falls below £1,000. [2] Rate drops to 0.81% after 12 months.

Measures of inflation - The average change in prices of goods and services over a 12 month period to March 2017

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
3.2%	2.3%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 10/04/2017. All accounts subject to terms and conditions.

Covershot: Vintage bicycle
Copyright: Shutterstock

This magazine is not personal advice. If you are unsure as to the suitability of any intended course of action, please contact your usual Lowes Consultant or this office.

Get to know the 16 friendly faces who provide Independent Financial Advice

WHILE LOWES HEAD OFFICE RESIDES WITHIN Jesmond, Newcastle, our 16 Consultants advise clients all across the UK. They are the friendly faces you see when you come to us for financial advice or a review of your savings and investments.

Behind them we have 55 investment, technical, support, administration and reception staff, all equally as friendly and focused on providing a high quality of service for our clients.

The range of experience, knowledge and expertise Lowes is able to utilise is remarkable, and we are proud to have a team of such committed and qualified Consultants working alongside us.

■ ***If you know anyone you think would benefit from seeing one of our Consultants, no matter where they are in the UK, please contact our office on 0191 281 8811 to arrange a free, no obligation Consultation.***

Sudoku

We started setting our Sudoku challenge in the magazine in 2014.

For anyone who's not tried their hand before, the aim is to fill the grid so that each row, column and 3x3 block contains the numbers 1-9. You can find the solution on page 10.

Source: www.printmysudoku.com

	7		1		8	2		
	8	1		9	7			
		3		2				
	2		8	6			7	
					2	9		
6		7		1	9			
	6			5				
						8	9	
9			3		1			

If you would like to receive further information on any of the subjects featured in this issue of **LOWES** please call: **0191 281 8811**, fax: **0191 281 8365**, e-mail: **client@Lowes.co.uk**, or write to us at:
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COMMENT

A less than premium bond

ON MAY 1ST THE PRIZE FUND FOR PREMIUM BONDS DROPS to 1.15% meaning that, with 'average luck' and a maximum holding of £50,000 you can expect to win £575 per year, tax free. When considered in the context of most deposit accounts, this is quite a respectable return, particularly given the security of capital afforded from the backing from HM Treasury. That said, it should be acknowledged that if you have less than 'average luck' you could earn nothing each year, the quid pro quo being that you have the chance of winning significantly more each month, albeit the odds aren't exactly in your favour.

An issue Premium Bond holders currently face is that even if they have average luck, they are as good as guaranteed to lose. The same holds true for almost all savers and the reason for this is inflation. The most recent figures from the Office of National Statistics tell us that prices rose in the last twelve months by 2.3% by reference to Consumer Prices Index and 3.2% by reference to Retail Prices Index. With most pundits and economists, including the Bank of England, stating that they believe inflation will rise further, the situation for savers continues to look bleak.

With inflation at 3%, a Premium Bond investor with the maximum holding but no luck and as such, no winnings, will see the spending power of their capital fall by £1,500 over 12 months. But even those with 'average luck' will see the spending power of their capital go backwards by almost £1,000 over twelve months.

There aren't any deposit accounts currently paying anywhere enough interest to provide an adequate hedge against real inflation. For many years, let alone decades, the best way to maintain and increase the real value of your capital has been to invest in real assets, stocks and shares. Whilst the risks inherent with such investments often serve to deter people, time and time again it is proven that over the long term, the biggest risk of all is to think you're taking no risk and instead, let your money be eroded by inflation.

That said, everyone should maintain an appropriate balance of accessible cash in reserve and given the pitiful interest rates offered on the high street in general, Premium Bonds might still be an answer.

Beyond that, if you want to have any hope of maintaining and improving the real value of your capital in this environment you are going to have to accept alternative risks and this is where we believe we excel. Our investment management philosophy is not one that seeks to achieve double digit returns year in, year out. What we aim to do is treat our client's capital in exactly the same way as we treat our own. No one wants to lose money but we all have to accept some risk if we want to attempt to remove the certainty of our capital being eroded by inflation. I am delighted that in the main, our clients have seen these risks rewarded over time.

Ian H Lowes,
Managing Director

Probate Fee increase scrapped

PROPOSALS TO INCREASE THE COST OF OBTAINING probate, that would have seen the cost potentially exceeding that of a funeral, were scrapped at the eleventh hour, ahead of the general election.

Probate charges are paid to the government when someone dies and the executor of their estate gathers their assets to distribute to beneficiaries of a will.

The Ministry of Justice were planning on increasing the cost in May, from its current level of £215 (or £155 if executed by a solicitor) to a sliding scale that would have seen the fee rise to as much as £20,000 for very large estates. It wasn't however only larger estates that would suffer, the proposed fees that were dubbed a "stealth death tax" by critics would have seen an estate valued at £300,000 suffer a charge of £1,000 and for those valued at between £500,000 and £1m the proposed fee was £4,000.

The U-turn is reportedly because there is now not enough time to change the legislation ahead of the election but that does not mean it will not be introduced later.

Main Residence Nil Rate Band

The long awaited Main Residence Additional Nil Rate Band for Inheritance Tax came into effect, at least partially, with effect from 6 April. The allowance applies where a residence, or funds released from a main residence, are passed on death to direct descendants.

The allowance currently stands at £100,000 and will be increased by £25,000 until the 2020/2021 tax year and subsequently, in line with Consumer Prices Index.

The direct descendants limitation means the allowance applies if it is 'closely inherited', i.e.spouses/ civil partners, widow(er)s, children, stepchildren, adopted and fostered children, children of those children.

Special rules apply where a parent has downsized or disposed of the property prior to death (for example when moving into residential care).

Restrictions apply for homes worth over £2million and also where a property has been gifted away in trust.

If you know anyone who needs Independent Financial Advice, please have them call our office on 0191 281 8811 and we will arrange for a Lowes Consultant to contact them.

Inheritance tax facts and figures

LATEST SURVEY PUBLISHED BY CANADA LIFE SUGGESTS many individuals are not concerned about leaving an IHT bill.

The survey, conducted among people over the age of 45 with assets exceeding the individual inheritance tax threshold (nil rate band) of £325,000*, uncovered that only 25% had sought professional advice about their inheritance tax (IHT) liability.

Most alarmingly:

- 43% of respondents expected to leave an inheritance of over £500,000, which would mean suffering from an instant IHT bill on their death – or rather their beneficiaries would suffer this bill. What's more, 10% of those people said they would leave over £1m as inheritance.
- Worse still, of those who knew they would exceed the IHT threshold of £325,000, a massive 73% had not sought any professional advice to help them reduce the inheritance tax liability.

As Independent Financial Advisers this is an anathema to us; there are simple, effective steps that anyone in this situation can take to legitimately mitigate their IHT liability and help pass on more of their wealth to their loved ones and other beneficiaries. See opposite for more details.

(* the new Residential Nil Rate Band that came in on 6 April increases by £100,000 for home owners with direct descendants.)

8 ways to tackle inheritance tax

IMPLEMENT THESE STEPS TO POTENTIALLY MITIGATE Inheritance tax, so you can pass on more wealth to loved ones and beneficiaries.

Everyone's circumstances are different and we would always recommend that professional financial advice is sought by anyone who believes their estate could be liable for IHT – which is currently charged at 40% of assets such as money, shares and land, with a combined value above the nil rate band of £325,000. The band is frozen at this figure until 2020. An additional £100,000 exemption applies to a main residence or money released from a main residence if bequeathed to children, or grandchildren, this rises to £175,000 by 2020.

1. Make a will

A will helps executors know what your wishes are in respect of assets and can make things much smoother for family as everything is recorded and clearly stated. For IHT purposes, everything left to a spouse or registered civil partner is free from IHT. A professionally drawn-up will should be first on the list.

2. Using gift allowances

Everyone can give away £3,000 a year free of IHT. You can carry forward your annual exemption but only for one year. There are some smaller gift allowances which can be used to extend this amount. For example, you can gift up to £1,000 per person for wedding or civil ceremony gifts (plus parental gifts of £5,000 for a child, £2,500 for a grandchild or great grandchild). You can also give normal gifts out of your income, such as Christmas or birthday presents and make payments to help with a child's (under 18) or elderly relative's living costs. You can also make gifts of £250 to an unlimited number of separate individuals.

3. Pay into a pension plan

Following the pension freedoms, death benefits rules for defined contribution pension schemes mean your pension pot can be passed on free of IHT to your beneficiaries. How the pension is treated for tax purposes is determined by whether a person dies before or after age 75. Before age 75 any benefit is paid tax free; should death occur at or after age 75 any benefit is taxable on the beneficiary at their marginal rate of income tax when withdrawn.

4. Business property relief

Certain business assets and particular investments could qualify for 100% relief from IHT after just two years of ownership when held at date of death.

5. Put money in trust

Making gifts or lending money to trusts can help reduce an estate and the IHT bill. There are various types of trusts that can be set up but professional advice is crucial.

6. Take out life insurance

If you don't want to give money away, then you could consider taking out a life assurance policy and putting it into trust. When the policy pays out on your death, the proceeds can be used to pay the tax bill. This doesn't save any IHT, it simply means that you pay a regular amount to an insurance company and an amount equal to the tax due on your estate can pass in its entirety to your family.

7. Giving away your surplus income

If you have more income than you need to maintain your "usual" standard of living, then you can make regular and habitual gifts out of surplus income IHT free.

There is no upper limit as long as you can demonstrate a clear intention to make regular gifts; that each gift is made as part of "normal expenditure"; and gifts are paid out of annual income (i.e. not capital). As might be imagined, HMRC has strict criteria for the phrases "usual" standard of living and "normal expenditure".

8. Leave money to charity

Leaving part of your wealth to non-family members may seem like a 100% loss to save 40% but it's not that simple. If you leave more than 10% of your taxable estate to charity, the IHT rate of the balance falls to 36%.

Importantly, in many cases, there are time lines involved, for example, you have to live more than seven years after larger gifts were made or a trust set up for it to pass out of the estate.

At Lowes, we have been successfully managing people's finances for decades, helping preserve family wealth for generations. To talk to a Lowes Consultant regarding your possible Inheritance Tax liability and arrange an initial free no obligation consultation call our office on 0191 281 8811.

Business as usual

LOWES' INVESTMENT MANAGEMENT PROCESS IS DESIGNED to deal with market uncertainties, which are inevitably caused when controversial issues such as Brexit and the presidency of Donald Trump occur.

Geopolitical controversy around Brexit, President Trump and populist movements, a global economy that is still on the first stages of the road to recovery, and stock markets that according to some commentators are seriously overdue a correction – with so much uncertainty in the world, are we about to see a seismic market reaction to all or some of these scenarios?

For UK investors, it is Brexit and the possible fallout from it that is closest to home. Speculation abounds that now Article 50 has been triggered, in the two-year run up to the point where the UK is no longer a part of the EU, the UK economy and stock markets will take hits. Negotiations are likely to be protracted – some suggest we could be in for a decade of discussions before we get even close to tying off all the deals necessary to establish trade deals with the EU – and during that time there will be continued uncertainty in the stock markets.

We've already seen the impact of the Leave vote in the weakness of sterling, causing Brexit to be felt in our grocery bills and the cost of holidays abroad, amongst other areas. In addition, the Office for Budget Responsibility (OBR) has forecast that inflation in the UK is likely to hit 2.4% this year. Others believe it could go as high as 4% or more.

The outcome of the referendum took many by surprise: as did the subsequent market rise following the Leave vote. However, while the FTSE 100 has risen to all time highs, reaching a peak of 7447 to date, that rise has, in turn, stimulated speculation that the markets are overdue a correction. So even without the effect of Brexit we could see markets adjust their value.

We are in for some uncertain times ahead and that inevitably leads to stock market volatility.

Even if the markets did react dramatically during the Brexit process, this is something Lowes has encountered before and the Lowes investment team is well equipped to deal with it.

Looking back through the Lowes archives shows that Managing Director, Ian Lowes has written to our clients at every major inflection point since he took over running the company in 2002, notably in 2003 when the FTSE 100 had fallen from its (then) high of 6950 to 3483, in 2008 when we were in the midst of the Financial Crisis, and more recently after the EU referendum shocked financial markets and bookmakers alike with a vote to leave; his consistent message has been – stay calm and make no rash decisions.

And now, while it is inevitable that during the process of Brexit there will be times when markets will fluctuate and we can almost expect that the media will focus on the doom, gloom and disaster scenarios, there is one strategy which will get us all through those periods – don't try to time the market, remain faithful to your convictions and have a long-term outlook.

The worst thing any of us as investors can do is panic - retracements are a function of the market and history has shown us that those investors who panic when fear is rife simply crystallise their losses. In contrast, staying invested in periods of significant uncertainty and volatility has paid dividends in the long term.

Equally as importantly, those who see market corrections as a time to invest can reap significant rewards.

Our process

What is it that makes Lowes so confident in our investment methodology? Well, it has been honed consistently over the 46+ years that Lowes has been in business. And we have run a separate and dedicated investment management team for decades, whose sole job is to ensure the investments we select are the right ones for our clients.

This is not a group of people who meet every quarter to discuss investments; our team are immersed in the market as their full-time job, constantly receiving information and briefings from fund managers and independent data specialists.

Our investment team is highly experienced and has access to sophisticated technology, and has a well-regarded reputation in the market that will see fund managers visit our offices to discuss investment issues and provide information first-hand on a fund. Where we don't meet with managers face-to-face we can access them via telephone calls and the team regularly attends workshops and industry conferences to listen to fund managers speak about how they see the markets and how they are running their funds.

Doug Millward, Lowes' Investment Manager, explains our selection process: "There are over 3,600 funds registered with the Investment Association from which we can select, so we have a robust system to identify the best funds in the market. We are not looking for fund managers who want to shoot the lights out by chasing short term gains, because invariably they will fall by the wayside in one or two years time. We want managers who we consider will consistently perform over the long term and who we feel confident in backing even when the market conditions mean their particular investment strategy underperforms for a period of time, because we believe they will come through in the long run."

(L-R) Letters during the stockmaket slump 2003; Financial Crisis 2008; market falls 2011; and the EU Referendum Leave vote 2016

Investment Manager Doug Millward (left) and Investment Analyst Paul Milburn

Doug continues: "It is historical fact that even the fund managers thought to be the best in the market have years when they underperform their peers. Two that come to mind are Neil Woodford who did not jump on the technology band wagon believing it to be highly overvalued and who then benefited when that particular wave came crashing down; and more recently, Investec's Alistair Mundy whose contrarian investment strategy was underperforming about a year ago but came good as it most often does when the markets turned in his favour again."

At Lowes, our investment team operates a multi-layered process which looks both at the quantitative data – the facts and figures – and the qualitative side, talking to the fund managers about their investment philosophies, why the fund has performed the way it has in comparison to its peers, and how it might perform in the future.

We use a proprietary system as well as FE Analytics, an award winning investment software package, to filter out and analyse the performance of funds and measure the risk taken by the fund manager to achieve that performance.

Our investment team takes this research further, undertaking regular meetings with the fund houses. In the past year, the team has met with 75 fund house representatives and had input from 140 fund managers either face-to-face or through attending investment conferences.

Lowes is recognised also as a leading authority on UK distributed structured retail products. This market has continued to evolve and in order to achieve the kind of products we would like to have for our clients, Lowes has been involved in designing some of the most innovative products that have been launched over the past year.

Within our portfolios we look to achieve a suitable level of diversification, in terms of the assets they invest in, the methodology of the fund and the style of the fund manager. Within a portfolio we will have a blend of funds that approach investment in different ways. Funds often benefit from certain cycles in the stock markets, such as funds which, in more simple terms, will do well when the price of companies are rising while others will tend to do well when returns are derived from paying out of dividends.

We are aiming for a medium to long-term blend of styles, avoiding the mistakes that inevitably will come with jumping in and out of the markets and delivering performance that benefits, for example, from both growth and value and delivering returns that rise over time.

That underlying methodology is applied to the portfolios we construct so that they both maintain the portfolio's investment objective and keep the fund within its risk rating.

If shocks to the political system have taught us anything, it is that there are no certainties in life and there will be ups and downs along the road. One way, and in our view the best way, to deal with the certainty of uncertainty is to have in place a tried and tested investment methodology that cuts out the short-term noise and is focused on the medium to long-term outcome. That way our portfolios have a far better chance of meeting our performance expectations and delivering for our clients.

Call our office on 0191 281 8811 to arrange for a Lowes Consultant to talk to you about your investments.

Spring Budget:
Key points affecting savers and investors

Personal tax

In 2017/18, the personal allowance – the threshold at which people start to pay income tax – is rising to £11,500 and to £12,500 by 2020, and the higher tax rate threshold increases to £45,000.

The Chancellor announced his intention to introduce increases to Class 4 National Insurance contributions for the self-employed but effected a U-turn on that decision a week later as it broke a Conservative party general election manifesto commitment not to put up National Insurance, income tax or VAT.

There were no changes to income tax or VAT rates.

Cut to dividend allowance

The tax-free dividend allowance of £5,000 introduced in the 2016 Budget by then Chancellor George Osborne, will be cut to £2,000 from April 2018.

This will see investors lose £3,000 a year in allowance. Any dividends received in excess of the allowance are subject to a 7.5% charge, which was also introduced in the 2016 Budget.

Explaining the decision, the Chancellor said that the allowance benefited those able to invest over the ISA limit, which he pointed out would rise to £20,000 in April 2017, and those who incorporated in order to reduce their tax liabilities.

Dividends are a useful income source in the current low inflation, low interest rate environment and this change imposes an additional tax of £225 for a basic rate taxpayer, £975 for a higher rate taxpayer and £1,143 for additional rate taxpayer. As a result, savers and investors need to think ever more carefully about how they derive income and which tax wrapper will give them the best tax outcome.

Pensions Annual Allowance limit

The wide scale pension changes introduced from April 2015 were designed to give people much more freedom over how and when they can withdraw their pension. Hopes that the Chancellor would recognise that proposals to reduce from £10,000 to £4,000 the amount people could pay into a money purchase pension if they had already drawn money from the scheme, was against the spirit of those freedoms, were dashed in the Budget speech.

Pension savers who have accessed their pensions may be caught by the new limit. Careful consideration will need to be given to taking benefits if there is a possibility the pension holder, or their employer, may want to make future pension contributions above the relatively low limit of £4,000 a year.

People's circumstances change so it isn't always possible to know what the future may hold and this change greatly restricts the ability to alter plans as people move through retirement.

However, there were no major pensions measures announced in this Budget, although an overhaul of pension tax relief is a distinct possibility in the future, with a move to a flat rate of relief rather than the current system based on earnings mooted.

Overseas pensions

As part of the crackdown on tax evasion, from 9 March 2017 the Chancellor introduced a 25% tax charge on money paid into an overseas pension held in a country where the policyholder is not residing. This may affect people looking to move abroad.

Inflation

The Chancellor said that the Office for Budget Responsibility (OBR) has forecast inflation will hit 2.4% this year and then fall to 2.3% in 2018 and 2% in 2019. The Bank of England has a 2% inflation target.

Given current levels, these inflation figures could be optimistic but underline the need for savers to think carefully about moving out of cash accounts, which are paying sub-inflation interest rates at present and so continually reducing the purchasing power of their savings.

■ ***If you are concerned that any of these issues will affect your personal savings and investments, please contact your usual Lowes Consultant or call 0191 281 8811 and we will arrange for someone to speak with you.***

Pension nominations - don't take the chance

MANY DEFINED BENEFIT PENSION SCHEMES STIPULATE that unless a nomination form is signed they will follow their own protocols in deciding whether a pension payment is made and who benefits from it.

A recent court case illustrates a consideration we have previously made, regarding the need to make a nomination for the pensions that you hold.

In the recent case, the Northern Ireland Local Government Officers' Superannuation Committee scheme had refused to pay a deceased member's partner a pension on the grounds that he had not nominated her as the beneficiary – something it required for unmarried couples.

The partner took the pension scheme to the High Court in Northern Ireland, the Court of Appeal and eventually the Supreme Court, which ordered that the pension scheme pay the full survivor's pension.

In this case it was ruled that the system of nomination forms effectively discriminated against unmarried couples, who are required to complete the paperwork, while married couples do not. It is important to stress that this ruling may not lead to a widespread or retrospective change to the current rules.

Lowes Consultant Gavin Burton says:

For any pension arrangement, do not make any assumption about who will inherit your pension if you pass away, rather check your pension scheme rules and don't take any chance. Make sure a nomination form has been signed and lodged with the scheme.

LISA or pensions?

MOST FINANCIAL PLANNING TEXT BOOKS ENCOURAGE starting to save for retirement at an early age. Obviously, the more you save and the longer you save it for, the more you will have in retirement. The reality however, is that retirement is often the last thing on a young person's mind as, amongst other, more pressing needs, saving for a first home is usually much higher on the agenda. For a long time, ISAs therefore have been a potentially more suitable, long-term savings vehicle for the young, where they can ultimately use the funds to buy a home or, subsequently reallocate them for retirement.

In the Budget last year the Government announced an effective hybrid; the Lifetime ISA (LISA) which became available from 6th April 2017. This vehicle, available to those aged between 18 and 39 is intended to help them buy their first home or save for retirement. Like the traditional ISA, it is a way to save tax free but in addition the Government will top up the savings by 25%, so for every £4 saved, the Government will add £1, to a maximum of £1,000 per year.

With this 25% Government bonus, which is equivalent to the same basic rate tax relief given on pension contributions and the potential to invest the money in identical environments to a pension, sheltered from tax on portfolio gains and income, LISAs are very similar to Personal Pensions. The key difference however is that funds can be accessed at any time but whilst there is no tax or penalties on withdrawals used to buy a first house or, after age 60, any withdrawals outside of these parameters will suffer the loss of the bonus plus a 5% penalty.

As such, for basic rate tax payers, LISA is a potentially attractive addition to retirement and long term savings but it should not be considered an alternative, particularly where choosing it over a pension would mean giving up employer's pension contributions.

LISA

- Maximum contributions per annum £4,000 and forms part of £20,000 ISA allowance.
- A 25% bonus on annual contribution at the end of the year.
- Withdrawal at any time but unless used to purchase a first-time home or after age 60 loses the bonus and incurs 5% penalty.

Pension

- Maximum contributions per annum £40,000 (tapered for those earning over £150,000).
- Tax relief (20% – equal to the LISA bonus) given at the time of the contribution and additional relief for higher rate tax payers.
- Withdrawals only after age 57 (for those born on or after 7/4/1977) and then taxable as income after the first 25%.

Why we need to plan and prepare for long-term care

WHEN WE FIRST RETIRE, IF WE'RE IN ROBUST HEALTH, we are more likely to be thinking about how to make our money work for us so we can enjoy a long and happy retirement, how we spend our 25% pension lump sum and how we preserve our hard earned money for our family or other beneficiaries, than we are on the possibility of us needing some sort of long term care in later life.

But the fact is that many more of us will require long term care because we are living-longer than previous generations, and as such, there is a higher likelihood that we could be spending some of those years in poor or declining health.

Findings from Age UK in its 2016 report *Later Life in the UK* revealed that there are 2.8 million older people with care related needs in the UK but nearly one million of them receive no formal support at all – in large part because of cuts to state funding.

Do you know who pays for long-term care if you should need it and what it costs? We find that the facts often surprise people. According to the Money Advice Service, the average cost of a residential care home place in the UK is about £28,500 a year, and £37,500 if nursing care is required. However, MAS takes its figures from a 2013/14 report. Others put the average figure for residential care at £39,000 a year – with nursing care costing significantly more.

Of course, not all of us will need long-term care. The trouble is that generally, we do not know which side of that equation we will end up.

Care comes in various forms, residential, nursing or someone coming to a person's own home. All of them have to be paid for and with local authorities funding being reduced, those authorities are looking to the individual to meet costs wherever possible.

Anyone going into care is means tested to see if or what they may have to pay. At the moment, any capital and savings below £14,250 are disregarded in the means test. If you have between £14,250 and £23,250 in capital and savings and you are eligible for care, the council will contribute towards your care costs. If you have capital and savings above £23,250, you will have to fund all of your own social care. In the Care Act 2014, the Government followed up on its pledge to cap care fees at £72,000 but then put implementation of the cap back until 2020. In any event, the £72,000 only covers care costs and not the costs of board and lodging. Also, it is calculated at the rate that the local authority would pay for care, which is likely to be less than the full amount a care home would charge.

So even when the cap comes in, people are going to be paying out for care for a lot longer than they may expect, as well as for their board and lodging to boot.

In fact, the Institute of Actuaries estimates that only one in eight women and one in 12 men who go into a care home at the typical age of 85 will benefit from the cap.

The fact is that where long term care is needed, it makes sense to have prepared financially for the possibility.

Lowes Consultant Nicola Wrightson says:

When a person has deteriorating health and/or a loss of mental capacity, Independent Financial Advice can help protect their assets. If financial planning has not been secured beforehand, and measures such as Lasting Power of Attorney (LTA) have not already been set up, it can become an exceedingly difficult period of time for immediate family to try to negotiate what will happen to the estate.

Taking reasonable precautionary measures to cover the need for long-term care, is something we can help with. In our experience, taking action now always makes for an easier experience for the person involved and their families should the need arise.

If you are concerned about your potential need for long-term care or know someone else who is, please talk to your Lowes Consultant or call our office on 0191 281 8811.

Sudoku solution

Here is the solution to the Sudoku grid on page 3 of this issue of the Lowes magazine.

5	7	6	1	3	8	2	4	9
2	8	1	4	9	7	6	5	3
4	9	3	6	2	5	7	8	1
1	2	9	8	6	3	5	7	4
8	3	5	7	4	2	9	1	6
6	4	7	5	1	9	3	2	8
7	6	8	9	5	4	1	3	2
3	1	4	2	7	6	8	9	5
9	5	2	3	8	1	4	6	7

Prioritise your savings in retirement

THE ORDER IN WHICH YOU DRAW INCOME FROM YOUR savings and investments can seriously affect your wealth, tax situation and how much money you pass on to your beneficiaries.

Everyone's circumstances and financial needs are different but here are some tips to consider:

1. Capital outside of tax wrappers

Your first port of call should be any non-tax sheltered capital is the place to start when drawing income, making use of available tax exemptions such as for Capital Gains Tax where possible.

2. Your ISAs

Next, you can take income or capital from your ISA at any time and payments are tax-free, so they won't affect the amount of tax you pay. Using your ISA savings can help you top up your income when moving from full-time work to reduced hours to full retirement. Note that ISAs still form part of your estate potentially attracting inheritance tax.

3. Use your pension tax-free cash sum

Up to 25% of your pension fund can be drawn, usually from age 55, and as the amount is tax-free it won't affect the amount of tax you pay. Note also that the tax-free cash can be drawn down over many years.

4. Cash in small pension pots worth less than £10,000

Outside of the 25% tax free cash, any further pension income will be taxed under the income tax rules. Cashing in up to three small pension pots however does not trigger the 'money purchase allowance' limit and means you can keep saving into a pension within the annual allowance, currently £40,000, rather than the newly introduced limit of £4,000.

Lowes Consultant Scott Beattie says:

If you are still working you may want to keep making pension and ISA savings. Be aware that once you take retirement income from income drawdown or a flexible annuity, any pension savings are limited now to £4,000 a year.

Also, you will need to be careful how much income you take out in any tax year to avoid crossing between tax bands and so paying more tax then you need to. In some years, however it may be worth taking extra pension income alongside income from other savings if you will still remain below a higher income tax threshold.

Any defined contribution pensions should be your last port of call now because under the pensions freedoms rules, in the event of your death, any money in these pensions will not normally form part of your estate. If you die before age 75, your unused pension funds can be paid tax-free to your loved ones either as a lump sum or income. This also applies to annuities if you had bought a dependent's annuity. If you die on or after age 75 the money can be passed on free of inheritance tax but is taxed at your beneficiaries' marginal rate of income tax.

Spotlight on your Lowes Consultant

CRAIG MOFFAT JOINED LOWES AS A Consultant in 2014, however his financial services history stretches back to 1985.

"I had my first interview for my first job in financial services straight out of A-Levels, on the day after my 18th birthday," he recalls. "It meant I had to postpone celebrating my birthday so I was ready for the interview but it paid off because I got the job."

That role was with Standard Life working in sales administration. Two years later Craig moved to Eagle Star in an inspector role for five years and then became a senior sales consultant for AXA SunLife, in the main working with financial advisers. In 2008 when the company relocated his role, he made the decision to remain in Newcastle, in order to spend more time with his family.

With all his experience and knowledge, a move into financial advice was the next logical step, which was good news for Lowes when he became a Consultant in 2014.

Within his first few years at Lowes, Craig was able to help clients claim on a critical illness policy which they thought would not pay out. Craig's knowledge and efforts resulted in a £100,000 payment and helped relieve the financial pressure the couple were feeling (the full story was described in issue 99 of the Lowes magazine).

Asked what makes his work within financial services enjoyable, Craig says: "If you talk to any Lowes Consultant they will say the same thing – it's having the contact with clients. It's listening to people and hearing not just about their finances but what makes them tick, what's important to them and then giving them the best advice for their circumstances. Every client is unique, they each have different needs and wants at different points in their lives.

"And it's not just when we first meet people. People's lives change over the years, what they need in their forties is going to be very different from their needs in retirement. Helping people adjust their finances and deal with life's events as they happen is where we can really deliver value. It's not just about the facts and figures and savings and investments, it's in the relationships we build with clients and our ability to help them deal with a crisis."

Solving financial issues can range from the simple to the complex, he says. "It can be that someone with an inheritance tax issue simply hasn't put their life insurance policy in trust. To do so takes the sum out of their estate, so it really makes sense to do it."

At other times, he says, clients may have numerous different plans and investments that they have accumulated over the years that need sorting so that they can get a clear picture of their finances. "It's helping the client see clearly what they have and then helping them realise how they might use that to achieve their goals, whether that is to retire or to give some money to their grandchildren. Often people don't realise what they have, or what is not working, until we go through it all with them.

"It's that personal touch and the difference it can make to peoples' lives that makes Lowes stand out and it's why our clients refer their friends and family to us. They know that everyone throughout the organisation has our clients' best interests at heart."

DOUG'S DIGEST

Return of the old enemy?

Lowes' Investment Manager Doug Millward looks at the rise in inflation and what affect it might have on the UK economy.

IN FEBRUARY THE HEADLINE RATE OF INFLATION AS measured by the Consumer Prices Index (CPI) reached 2.3%. This was a big jump from January when CPI stood at 1.8%, and put it above the Bank of England's target of 2% for the first time since the end of 2013.

CPI is the figure used as the official measure of inflation in the UK, replacing the Retail Prices Index (RPI) in 2003. A third measure, Consumer Prices Index including owner occupiers' housing costs (CPIH) was originally introduced in March 2013, but was removed as an official National Statistic in 2014 following concerns about the calculation methods. The Office for National Statistics (ONS) is addressing these concerns, with the long term aim of CPIH replacing CPI as the headline measure of price inflation. The weightings given to different parts of the "basket" vary for each measure, giving rise to different rates from each.

However, if we accept that CPI gives an indication of the general direction and rate of inflation, is this increase a cause for concern?

In a free market economy, a controlled amount of inflation is a good thing. If prices are falling, or even just staying the same, people will tend to hold off purchasing some items in the expectation they will get a better deal in the future. This, in theory, reduces demand, leading to less production, possibly job losses and ultimately a struggling economy. If prices are rising however, then people are encouraged to buy now, rather than next month when the cost may be higher. This leads to increased demand, increased production, and possibly higher employment, which in turn gives people more confidence to go out and spend.

Also, as inflation makes the money of tomorrow less valuable than the money of today, it encourages borrowing, as the money used to repay the loan in the future is worth less in real terms than the money borrowed today. Borrowing money increases spending, either by consumers buying goods or houses, or companies and governments borrowing to invest, which again leads to an improving economy.

The problems arise when inflation gets out of control. Whilst a little bit of inflation is good, too much means that people can't afford to buy the things they need, making them demand higher wages, pushing up costs for businesses, forcing them to put up prices further and if this cycle runs unchecked the economy ultimately collapses.

In 1997, the Bank of England was given independent responsibility for monetary policy in the UK, with its current target being to keep inflation as measured by CPI at 2%. If CPI goes 1% above or below this target, then the Governor must write to the Chancellor explaining why and what action they intend to take.

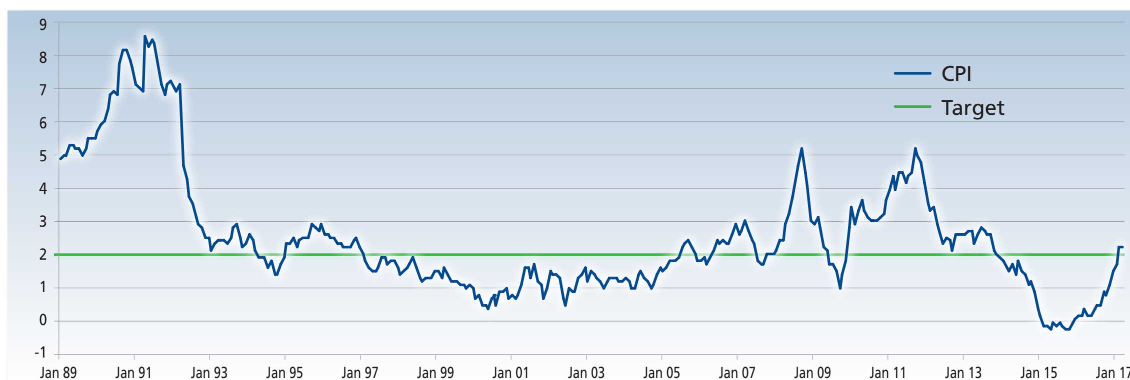
As can be seen in the graph below, there have been several occasions when the Governor has had to write these letters, but one of the benefits of an independent central bank is they aren't reliant on public opinion for their position as politicians are. They are therefore less likely to make shorter term decisions, and are more willing to look "through" the data to identify the underlying trends.

An important thing to remember is that inflation is merely a measure of how much the price of a basket of goods and services has changed over the last twelve months, so can be skewed by a one-off event, such as the fall in value in Sterling since the Brexit vote, compared to other currencies, meaning imported goods or raw materials have increased in cost in Sterling terms.

Whilst these increases will lead to higher inflation over the next year or so, unless Sterling falls further they can be expected to start falling out of the inflation figures in a year or so. This is the view currently taken by the Bank of England, with its latest inflation report stating they expect CPI to peak at around 2.75% in 2018, before falling back towards its 2% target. Whilst 2.75% is above their target they are happy to look through the short-term rise to the longer-term trend.

We believe the Bank of England will only move to tackle inflation if they see more substantial pressures building, namely wage inflation. If people are secure in their jobs they will push for wage rises, giving them more cash to spend, leading to higher inflation. This is something the Bank would have to counter as it is not a transitory event. At present, however, peoples' incomes are only just keeping pace with inflation.

So, whilst headline inflation is increasing, until we see a pick-up in average earnings we don't see the Bank of England acting to slow the economy down. At present, whilst the rise in inflation is producing headlines, we think it will be more of a help to the economy than a hindrance even if it isn't welcomed by savers.



This magazine is not personal advice. If you are unsure as to the suitability of any intended course of action, please contact your usual Lowes Consultant or this office on 0191 281 8811.