Spring **2014**

"If we don't change, we don't grow.
If we don't grow, we aren't really living"

Gail Sheehy

Lowes secures substantial discounts for Cofunds clients

LOWES FINANCIAL MANAGEMENT WAS ONE OF THE FIRST USERS OF COFUNDS - a market leading proposition that helped change the basis of investing - and accordingly we have always represented a not insignificant part of the platform's assets.

Recent regulatory changes have seen fund management charges unbundled to make them more transparent, since then the charges have fallen significantly but, in turn, it is investors rather than the fund management companies who now meet the cost of administrating their investments. The net effect of this has been broadly neutral but thanks to our position with Cofunds we have secured discounts on Cofunds' charges of at least 13.75% for every client - significantly more (up to 26.6%) in some cases.

These discounts will be backdated to be effective from the beginning of March 2014.

New Marketing Manager is a familiar face

LOWES IS PLEASED TO WELCOME back to the fold Ian Chapman, who rejoins us as Marketing Manager after 10 years in the insurance broking world.

Ian previously worked for Lowes as Marketing Manager between 1999 and 2005, at which point he left to join a national insurance services company.

Now with over 20 years experience in financial services marketing under his belt, Ian rejoins Lowes at a time when we are growing our national presence, including our work with the media.

Ian says: "As a Chartered Independent Financial Adviser firm Lowes have a wealth of expertise, not only in their highly experienced Consultants but also in their own investment and pension teams. One of my jobs will be to make sure we make our success known and that Lowes people get recognised for the great job that they do for our clients."

Outside of work Ian has an interest in sports, including running, boxing and cricket.

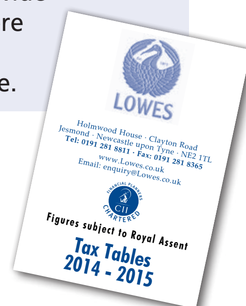
Lowes in top three

LOWES FINANCIAL MANAGEMENT IS DELIGHTED TO be recognised as one of the top three Best Investment Advisers in the UK at the national Money Marketing Awards.

The awards recognise the investment expertise provided by financial adviser firms around the country and are awarded after a rigorous judging process. Achieving a top three position is a huge fillip for our investment team and our Financial Consultants.

The Judges said that Lowes offers "a well-rounded investment process that makes use of a wide range of investment solutions". They were also impressed by our straightforward approach to delivering investment advice.

Lowes Tax Guide



OUR ANNUAL TAX TABLES PUBLICATION provides an easy-to-access guide to personal tax allowances and exemptions.

Your complimentary copy is enclosed with this magazine. Please keep it somewhere handy so if you or your family or friends want to know the latest figures they are there at your fingertips.

If you would like additional copies, please telephone 0191 281 8811 or send an email to: client@Lowes.co.uk

Our cover shot:

Carpet of Bluebells in woodland, Buckinghamshire, UK @shutterstock/Lowes

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online, branch & post	£1+	Newcastle Building Society	Bobby Robson Foundation 5	1.25%	www.newcastle.co.uk 0845 600 4368
Branch & post	£1+	Virgin	Easy Access Saver 10	1.25%	Branch
Accounts with first year bonus					
Internet Based	£1+	Post Office	Online Saver 11	1.30%	www.postoffice.co.uk
Fixed rate bonds					
Post	£1,000+	Britannia	1 Year Fixed Rate Bond	1.71%	Branch
Post	£5,000+	Shawbrook Bank	2 Year Fixed Rate Bond 3 Year Fixed Rate Bond	2.10% 2.65%	www.shawbrook.co.uk

Measures of inflation - The average change in prices of goods and services over a 12 month period to February 2014

Retail Prices Index (RPI) 2.7%	Consumer Prices Index (CPI) 1.7%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk 1 April 2014. All accounts subject to terms and conditions.

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.

Understanding the benefits of investing

SOME COMPELLING FIGURES CAME OUT OF THE ANNUAL BLACKROCK Investor Pulse survey, which interviewed 2,000 UK residents between the ages of 25 and 74 about their approach to investment.

The survey identified that 50% of investors were wary of putting their money into the stockmarkets post the Financial Crisis and were holding up to 68% of their money in cash, i.e. bank and building society accounts, premium bonds and the like.

Yet, as we highlighted in the Autumn issue of the Lowes Magazine, record low interest rates that are below the rate of inflation are eroding the value (spending power) of that cash on a daily basis. Research by JP Morgan has shown that a one-year bank deposit of £100,000 could have generated income of £5,745 in 2007, while today it would only generate around £820.

As might be expected, for many people interviewed this was a major cause of concern in respect to their financial future.

However, significantly, the survey found that those people who used Independent Financial Advisers were far more confident about investing in the stockmarkets and as a result had greater confidence in their long-term financial future.

To quote the report: "Topics of conversations that advisers initiate with their clients cover a broad range of issues, such as having a comprehensive financial plan in place, protecting their savings and investments against the potential impact of inflation, and developing a retirement plan." This, the survey found, means that "people who have a financial adviser feel more in control of their financial futures, probably because the process compels them to take a more involved and comprehensive view of their finances."

Financial pitfalls

The BlackRock Investor Pulse survey identified 7 typical mistakes made by people who do not use a financial adviser. These were:

1. Being too risk averse
2. Holding too much cash
3. Forgetting about inflation
4. Not factoring in longer life expectancy
5. Not investing in a tax-efficient manner
6. Not diversifying their investments
7. Focusing on short-term returns

Sudoku

If the 2014 Budget wasn't enough to keep us busy, we're still indulging our passion for Sudoku brain teasers.

Here's one we've enjoyed.

Fill in 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.sudoku-puzzles.net

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

COMMENT

New pension rules heighten the need for advice

MY FIRST POSITION IN FINANCIAL SERVICES WAS dealing with clients' pensions over twenty-five years ago. Over that time I have seen many successive governments tweak and change the rules here and there, implementing various reforms, all of which have promised to simplify the complex issues surrounding pensions, whilst trying to ensure that pension funds were used to provide income for life.

And then, in what was clearly a Budget designed to please the electorate, much of the pension regulation text book was ripped up in one fell swoop. The proposed principle now is that, outside of final salary pension arrangements and where an annuity has already been purchased, it's your money, do with it what you like.

In some respects, arguably, this is a rash move and there are bound to be some unintended consequences. I have no doubt that new rules and restrictions will have to be introduced to protect people from themselves but all in all, when considering the potential ramifications I believe this relaxation of rules, at this time is a very clever piece of economic strategy. As people draw capital sums out of their pensions, the government will receive tax on that money sooner than they would have done otherwise, that money will then be spent in the economy more quickly and on many non-essential, VATable goods and services then, and here's the catch, what isn't spent will be taxed in the end anyway.

I have been saying in Lowes seminars for many years that governments rarely give anything away for free and I believe that many people are going to end up paying a high price for this new found pension freedom. Taking too much out of a pension fund could lead to a hefty tax bill, but I anticipate that without proper planning the alternative of simply leaving a pension fund intact will not lead to a significantly reduced overall tax burden.

It doesn't matter which way you look at it, the new rules are going to give rise to the need for financial advice possibly more so than ever before, as the decisions made on approaching and at retirement will impact an individual for the rest of their life. Taking appropriate action now will help maximise the benefits and avoid the perils and pitfalls later.

Ian H Lowes,
Managing Director

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: **Lowes Group PLC**, FREEPOST NT197, Holmwood House, Clayton Road, **Newcastle upon Tyne NE2 1BR.** Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Conduct Authority.

Lowes in the press

AS A LEADING IFA FIRM IN THE UK LOWES FINANCIAL Management often supplies the consumer press with data and comments on financial issues.

Recently, our investment team provided the ***Daily Mail*** website ***This is Money*** with detailed analysis of what it would have taken for the average saver to have beaten inflation over the past 5 years. Our number crunching highlighted that to beat consumer prices index (CPI) inflation a basic rate taxpayer would have needed a savings account paying 3.9% a year, while to beat retail prices index (RPI) inflation they would have needed 4.7%. For higher rate tax payers the figures were even worse: 4.9% and 5.9% respectively.

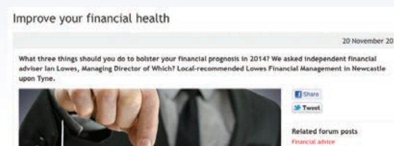
3.9% that's the magic number: It's at least what savers needed for the past five years to beat inflation

By LEE BOYCE

With most banks and building societies paying a fraction of those interest rates, holding money in cash savings accounts has literally seen the value of the cash erode on a daily basis. As Lowes Managing Director Ian Lowes said in the article: "For as long as we have inflation running higher than the rate of interest being paid on the vast majority of deposit accounts, even before tax, money in deposit accounts is being eroded on a daily basis and depositors either accept that or invest, accepting alternative risks."

(See ***Understanding the benefits of investing on page 3***)

We were also contacted by consumer group ***Which?*** to provide some sound advice for people looking to put their affairs in order in 2014. Ian's advice included keeping an eye on the savings rates being paid on your money in banks and building societies and switching accounts where the rates are low; making a Will, to ensure your wealth goes where you want it to go, not where the government deems it should; and, as more and more people start to be drawn into the inheritance tax bracket as the value of property and investments goes up but the IHT threshold remains static, taking action to mitigate those tax liabilities and see more money go to family than the state.



Lowes also gave its expert opinion on structured products for highly respected investment title, ***What Investment***. In this article, we revealed data compiled by the Lowes team that showed the average annualised returns from products maturing in 2013 was 6.72% per annum, significantly beating the best savings accounts that offered between 3% and 4% pa. As we pointed out, this is a clear indication of how structured products, with their blend of various levels of capital protection and stockmarket linked returns were generally delivering attractive returns for investors.

Boiler Room arrests but we should still be wary

COMBINED RAIDS ON CRIMINAL GANGS BY THE POLICE forces in the UK and Spain recently shut down 17 boiler rooms, arresting around 110 people.

Boiler rooms are operations that make high pressure telephone calls to people they know to have investments telling them they have a fantastic deal for them, an opportunity that comes once in a blue moon and which they would be extremely foolish to miss. They apply more and more pressure, using sophisticated selling techniques, until the person on the end of the phone is cajoled into making the investment. The investment then turn out to be worthless or non-existent.

The 100 people from the group arrested – a reflection of the size of the organisation involved – had targeted some 850 victims in the UK alone, mainly pensioners, who lost between £2,000 and £500,000 each, amounting to around £15m in total.

The police teams talked about people's entire life savings being taken, including the money they had saved for retirement, devastating their lives.

The arrests are clearly a major win for the police in the UK and Spain but they believe the operations they have closed down are the tip of the iceberg. These are lucrative operations for criminals from which they live lavish lifestyles. We can't expect that they will be deterred permanently by these arrests.

We've warned about these types of operations in previous copies of our magazine. Please be wary because people are still being caught out. If you do receive this kind of call, remember anything that seems too good to be true invariably is. If someone is telling you it's a last chance opportunity and putting you under pressure, remember these people will quite happily steal your money so don't be concerned by the niceties of social etiquette, ultimately you are in charge, you can just put the phone down. And if you have any doubts about any investments please call us on 0191 281 8811, or alternatively you can report this directly to the Financial Conduct Authority on 0800 1116768.

When is an income payment not an income payment?

IF WE INVEST TO ACHIEVE A REGULAR INCOME, LOGIC SUGGESTS that the place to start is with investment vehicles that focus on producing income payments, typically through bond or equity income investments. In other words, we'd expect to use income products to deliver an income payment.

However, this is not necessarily the best way to achieve the income needed. In fact, taking an individual's tax situation into account, it could cost them money. Addressing and questioning our needs is essential to ensure the best outcome for our individual circumstances.

Most of us use our income tax allowances each year, and yet very few of us take advantage of our annual capital gains tax allowances. In consequence, there is far too much tax paid in this country because people want an income from their investment.

The reality is that while people may well want an income, what they actually need is a regular payment - and they are not necessarily the same thing.

To explain with a simple example: Let's assume we have a basic rate taxpayer looking to invest £50,000 with an objective of achieving an annual income of £2,400 after tax, and a return of 6%. If we placed the £50,000 into what seemed to be the obvious option, a portfolio of income bearing unit trusts, achieving 6%, then after tax the individual would get exactly what they set out to achieve – an annual income paid into their bank account of £2,400.

Ten years later on, because all of the income has been withdrawn but nothing more, the investment should still be worth £50,000, with no tax to pay on encashment. Perfect. There could be no argument that the investor's objectives had been met.

But let's say that rather than just taking what would seem to be the obvious option, instead we address and question the person's needs, and as a result of this, our advice is to place the money into a portfolio of growth unit trusts achieving the same 6% per annum. How does this change the situation?

As the name suggests the income unit trusts pay an income, and the growth unit trusts don't. However, by setting up an annual withdrawal facility from the growth unit trusts we can arrange for the £2,400 that the investor needs each year to go into their bank account.

The difference this makes, is because the growth portfolio is subject to capital gains tax (CGT), rather than income tax, and because the £2,400 falls well within the annual capital gains tax allowance (for 2014-2015 an individual has an exemption from CGT up to £11,000) that unless your total annual gains exceed this allowance, there'll be no tax to pay each year. The difference that makes, is that at the end of ten years we have £7,900 more invested, which in turn is earning a return.

On encashment we are going to have to pay 18% CGT on the gains, but by the time we take into account the capital gains tax allowance in the year of encashment, the investor still ends up £5,000 better off. That's £5,000 in the investor's pocket, as well as receiving the £2,400 each year.

So, to answer our question, when is an income payment not an income payment? It's when it's a growth payment adopting a more tax efficient approach to your income needs.

Making the most of your annual CGT exemption

IT IS IMPORTANT TO TRY TO USE THE ANNUAL CGT exemption each tax year because if you don't use it, you lose it. Here are three ways to make the most of your CGT exemption.

1. Careful selection of the investments you hold so at least some of them will be taxed under CGT rather than income tax rules, allowing you to take advantage of the CGT exemption rules.
2. If you are a higher or additional-rate tax payer with a spouse who is a basic rate tax payer, it can benefit you as a couple to transfer assets into the spouse's name to utilise their annual exemption when it becomes time to sell those assets. It must be borne in mind that, in order to avoid CGT or indeed inheritance tax (IHT) issues, this can be done only by an outright and unconditional lifetime transfer between the two of you.
3. Where an investment needs to be sold and it is too large to do so under one year's exemption, spreading it across two tax years, thereby making use of two annual exemptions can reduce the tax bill or, depending on the size of the investment, avoid it altogether.

To guide you through the maze of tax and investments always talk to a Lowes Consultant on 0191 281 8811

TOP TIPS

The 7 Ages of Investment

At each stage of our lives we need to be considering our finances. This illustrates what we should be considering and when.

Newborn/Child

As parents and grandparents, taking action to contribute to the financial future of children when they are first born or in their earliest years can not only ensure they are better off during their lifetime but set a good example in respect of savings and investments.

Investments at this stage in a child's life will be taken with a long term view, as such they can be made into higher risk investments on the basis that over time this should build into a bigger investment portfolio and in the event that markets should fall along the way, there is far longer for them to recover and make money for the child.

- **Areas to consider:**
- *Setting up a trust fund*
- *Investing for education fees*
- *Investing into a Junior ISA*
- *Protection insurance for parents*

Teenager

Financial education is growing in schools but remains below the level needed to ensure that teenagers understand the sense in making savings and investments. Explaining the need for budgeting and starting a savings or investment account and engaging the young in the process can help establish a sound grounding in finances that will last someone their whole life. Many people are wary of the stockmarket because they come to it at a time when they can ill afford to lose money. Introducing young people to the principles of investment at an early age will help them understand the options and make them familiar with the terms, phrases and formulas. Debt avoidance is also a key lesson to be learned at this stage in life.

- **Areas to consider:**
- *Education around budgeting, debts, savings and investments*
- *Continuing to invest in a Junior ISA*
- *From age 16, managing the JISA*

Singles in 20s

Our twenties should be a period when we have slightly more disposable income and saving and investing via tax wrappers such as ISAs should be *de rigueur* for anyone who can afford it. It's also a time when people like to put their first foot on the property ladder.

Just how much risk we take with our investments at this stage will depend on individual circumstances but a more aggressive investment strategy, aimed at achieving greater levels of growth albeit at higher risk, could pay off in the long run. The theory behind cumulative returns is one to learn early. Taking advice from an Independent Financial Adviser is going to be sensible to establish a financial plan and to ensure any investments selected are in line with your long-term needs.

- **Areas to consider:**
- *Pension saving – at least auto enrolment minimums*
- *Annual ISA investment*
- *Long-term financial planning*
- *Property purchase*

Married couple

Married couples should be planning for the future, as well as covering the present. This will include looking at the overall joint assets you own as a couple, reassessing your lifestyle goals, investment aims and attitude to risk, and constructing a financial plan and investment portfolio that look to grow and preserve your wealth.

Where your property is bought via a mortgage, having life insurance to cover the size of the mortgage amount as a minimum means that should anything happen to one of you the other is not left struggling to meet the payments on their home.

Similarly, consideration should be given to critical illness and income protection insurance.

- **Areas to consider:**
- *Joint assets*
- *Overall investment portfolio*
- *Making a Will*
- *Annual ISA investment*
- *Life Insurance*
- *Protection insurance*
- *Pension saving*

Married couple with children

Children bring their own quite considerable financial commitments with them. Newspapers are fond of quoting figures suggesting that each child can cost up to £100,000 to raise from birth to the end of university education. At this time our disposable income can drop dramatically which can limit our investment capabilities. However, wherever possible taking advantage of the tax allowances that come through ISAs and pensions should remain high on the financial agenda even if it's not possible to invest to the same degree as we have done in earlier stages of our lives.

A review of the risk being taken with investments should also be undertaken as our attitude to risk is likely to have changed in line with our additional commitments.

Life, critical illness, income and mortgage protection insurance are probably most essential during the period when we are bringing up our children.

- **Areas to consider:**
- *Annual ISA investment*
- *Reassessing risk in portfolio*
- *Life and protection insurance*
- *Mortgage protection*
- *Pension saving*

Married couple kids flown the nest

At this point in our lives we should be well on the way to paying off our mortgage, our children should not be a financial drain on us, and our investment portfolios should be looking healthy. It's a time when we should have more disposable income and be seriously thinking ahead to retirement and saving a bit more for our retirement.

At this stage we will have a reasonable idea whether our accumulated wealth, including our homes, is likely to breach inheritance tax thresholds. If so, forward planning can help reduce the tax bill for our loved ones.

It's also a time when a review of our Wills, putting in place legal documents such as Lasting Powers of Attorney and factoring in the potential need for long term care can be beneficial should any unexpected events occur later in life.

Often this is the time when we have to start caring about our parents, who may be in ill health or need long term care.

- **Areas to consider:**
- *Annual ISA investment*
- *Increasing pension saving*
- *Planning ahead for retirement*
- *Reviewing the risk in investment portfolios*
- *Reviewing your Will*
- *Set up a Lasting Power of Attorney*
- *Considering a long term care plan*
- *Take advice on IHT issues*

Retired couple

This is the time of life when we should be reaping the rewards of all our financial planning over the years. At retirement selecting the appropriate retirement solutions, particularly given the proposed relaxation of rules regarding an annuity purchase, is essential. In particular, a product should be found that reflects your health, required income, potential longevity and the needs of your spouse/partner.

Taking advice that considers your entire assets can identify just how much money you need and how much you can have to spend on enjoying your retirement. Many people are pleasantly surprised by the results of a full financial review at this stage.

Savings and investments outside of your pension funds should be assessed in terms of their risk. This is the time when people often want to reduce risk to a minimum to preserve their accumulated wealth as much as possible so that it lasts their lifetime but it is essential to appreciate that at retirement you could be facing a situation where your savings might have to last another 30 years or more so disinvesting or derisking too much could see you struggle later in life thanks to the ravages of inflation.

Again a review of our Wills, and where we have not done so already, putting in place lasting Powers of Attorney and factoring in the potential need for long term care and Inheritance Tax planning should be done sooner rather than later.

Areas to consider:

- *Finding an appropriate retirement product*
- *Ensuring retirement plans cover your spouse/partner*
- *Review of Will*
- *Have you set up a lasting power of attorney?*
- *Considering a long term care plan*
- *Review IHT mitigation plans*

Lowes magazine 2014 Budget Special

Its impact and what it may mean for you!

We take a closer look at the recent changes announced by Chancellor George Osborne regarding the 2014 Budget. We'll look specifically at savings and investments and the radical overhaul of the UK pension system.

The New ISA now NISA than ever before

George Osborne's claim that the 2014 Budget "was a one for savers" rang very true with the changes made to ISA allowances. The ISA and its predecessor Personal Equity Plans (PEPs), have been one of the more successful savings vehicles, probably due to the relatively stable wrappers and the consistency of the rules surrounding them. Governments have had little inclination to tinker with them other than to increase the limit which can be invested into them year on year.

The new rules that will apply from 1 July 2014 make for a far more flexible tax wrapper. Savers and investors can now put up to £15,000 a year into what has now been called a NISA and know that any gains made on them won't be subject to income or capital gains tax (CGT).

Importantly, the limit on cash savings within an ISA have been removed, so now you can invest a whopping £15,000 a year directly into cash, whereas before only half the amount could be saved in cash and the rest had to be invested in a Stocks and Shares ISA.

Equally as significant, it will be possible to move cash to Stocks and Shares and then back to cash again. Previously, savers could shift into Stocks and Shares but not back.

From 6 April to 30 June 2014 the old rules still apply; the maximum amount that can invested is £11,880 into a Stocks and Shares ISA, or £5,940 can be made into a Cash ISA with the rest into a Stocks and Shares ISA. From 1 July it will be possible to top up on any NISA investments to the new £15,000 limit in accordance with the new rules.

The Junior ISA limit will also be raised, to £4,000 from the current £3,840, from 1 July 2014.

Invest in an NISA or concentrate on your pension saving?

The new NISA and pension rules have provided fresh impetus to the debate around whether it is best to save for retirement in a pension or to use the yearly new NISA allowance to build up your retirement pot.

The increase in ISA allowance to £15,000 a year means a significant portfolio of savings and investments can now be built up over time.

The proposed ability to take all the cash out of a pension pot, and not to have to buy a retirement income product, gives pension investing a whole new degree of flexibility it hasn't had before.

For higher rate tax payers who will receive 40% tax relief investing into a pension but are likely to pay lower rate tax coming out, a pension remains heavily advantaged, as it can benefit from returns on the additional 40% invested.

For basic rate tax payers it's a matter of weighing up whether it will be more beneficial to save in a pension, which can't be accessed until 10 years before the retirement age which is currently 65 but will be extended to 67 by 2028. Saving 20% tax when putting money into the pension but liable to tax when taking it out, or invest into a NISA, having already paid tax on the money being paid in but not paying any tax when it is taken out.

Whichever route you choose will be down to your individual circumstances and your Lowes Consultant will be able to help you with the number crunching to ensure that the right decision is made for you circumstances.

Fixed-rate Pensioner Bonds

Anyone trying to live off the interest from fixed rate bonds will have been struggling for the past five years with interest rates at an all-time low. Recognising this, the Chancellor announced an interesting development for those in retirement in the form of a proposed fixed rate Pensioner Bond via National Savings and Investments.

These new rates offer in the region of 2.8% gross/AER for a one-year term, and 4.0% gross/AER for a three-year bond.

On the face of it these look a good investment but they are capped at £10,000 and any income derived from them will be subject to Income Tax. So it will be important to assess whether these bonds or the cash NISA option will give the best overall result given that gains in a NISA are not subject to Income or Capital Gains Tax.

In addition, the impact of interest rates and inflation on the spending power of cash accounts, as opposed to stockmarket based investment, also has to be borne in mind and this is where your Lowes Consultants can provide advice.

Earning more from Ernie – potentially

For anyone who likes to keep some money in Premium Bonds (saving with Ernie), the maximum amount that can now be saved will increase from £30,000 to £40,000 from June 2014 and will eventually rise to £50,000 in 2015/16. There will also be two £1m prizes a month from August 2014.

As a savings or investment strategy, anyone putting money into premium bonds has to realise they may not win any prizes and as such, although capital is safe (unless the UK government defaults on its debts), the spending power of your savings is being eroded by the current rate of inflation every year.

Income tax changes

The personal tax allowance of £10,000 for the 2014/2015 tax year will rise to £10,500 in the 2015/16 tax year, for those born after 5 April 1948.

At the same time the level at which income tax is payable at the higher rate is being increased from £41,865 in 2014/2015 to £42,285 in 2015/16. This should benefit anyone with an income between this amount and £100,000. Over £100,000 the loss of personal allowances and the additional rate tax threshold remain the same.

The chancellor also confirmed that from April 2015, married couples and civil partners will be able to transfer £1,050 of their income tax personal allowance to their spouse or civil partner, providing that partner is a basic rate tax payer.

Age related allowances that apply for those born before 6 April 1948 were frozen in the 2012 Budget and will remain at £10,660 until the standard personal allowance increases to the same rate at which point they will be abolished and everyone will move to the standard personal allowance.

Savings tax rate reduced from 10% to 0%

The changes to the starting rate of tax for savings – reducing it from 10% to 0% – means that anyone with a total income of less than £15,500 will not pay tax on their savings.

This applies from 1st April 2015 and means that if a person's total income, including their income from wages, pensions or benefits is under the tax-free personal allowance of £10,500 plus £5,000 in savings income, they will be able to register for tax-free savings.

It should be noted that the starting rate has been reduced from 10% to 0%, not abolished, so future governments could re-impose a higher rate should those in power choose to do so.

Inheritance Tax (IHT) and Capital Gains Tax (CGT)

The IHT threshold remains frozen at £325,000 until at least 2017/18, meaning that as the property market picks up and asset prices rise, more and more people will fall into the IHT bracket, with potential bills for their beneficiaries of 40% of their entire estate in excess of £325,000.

The annual CGT exemption rises by £100 to £11,000 in the 2014/2015 tax year and then to £11,100 in the 2015/16 tax year. Making good use of your annual CGT exemption can help reduce your capital gains tax liability as well as income tax liabilities (see page 5 for more details).

The pension regulations have been ripped up!

The 2014 budget was a watershed moment for pension planning in the UK for clients and advisers alike. There were a few changes announced that will have an immediate impact on many pension savers, but the biggest significance is the longer term intention to let savers access their retirement funds in a much more flexible way, with less restrictions, better death benefits but with the same tax reliefs.

The immediate changes are small to what is proposed for next year but could still have a significant immediate effect on your money.

Income Drawdown

- Maximum 'capped' drawdown income has been raised (to 150% of 'GAD' rates – the Government Actuary's Department rates – from 120%).
- Minimum guaranteed pension income to qualify for 'flexible' drawdown has been reduced to £12,000 per year (from £20,000)

Small pension pots

- The 'triviality' limit has been raised to £30,000 (from £18,000). Meaning individuals over 60 with total pension savings of up to £30,000 may be able to take the full pot as a lump sum; 25% tax free and the rest subject to the individual's marginal rate of tax.

- 'Stranded pots' rules have been relaxed. Up to three small pension pots of up to £10,000 each (up from £2,000) can now be taken as lump sums.

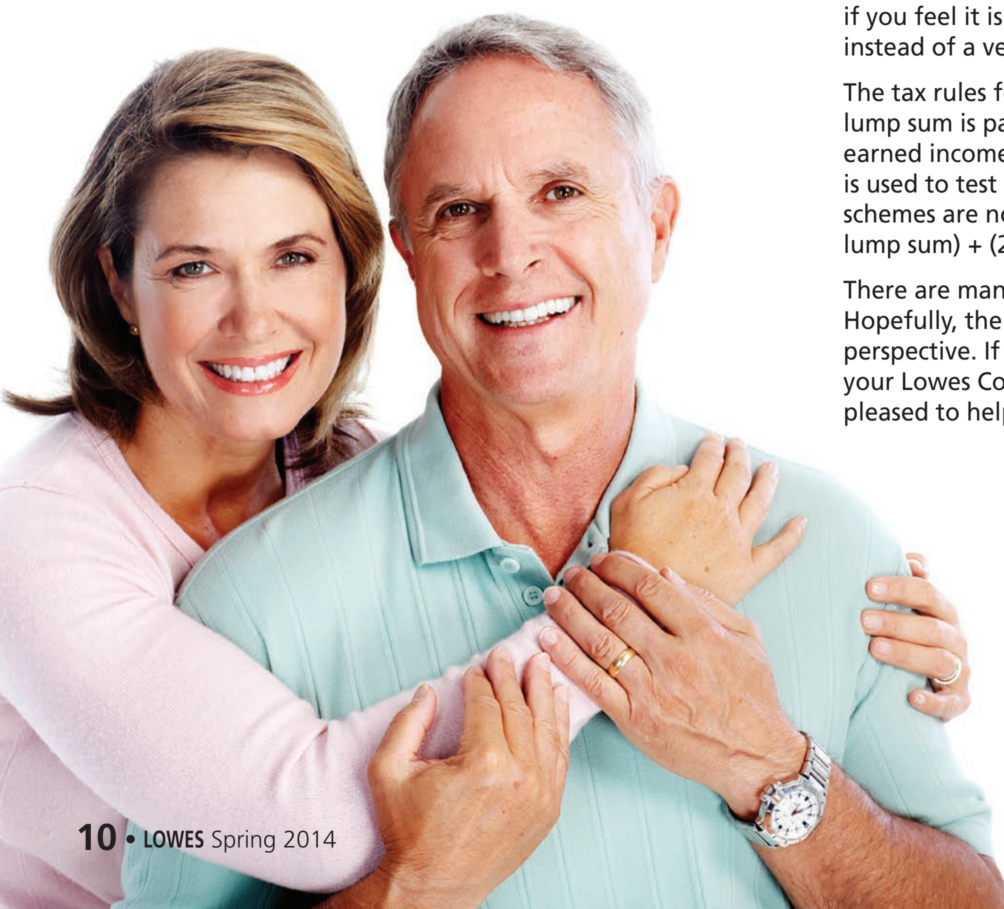
The long-term intentions are the most significant

The following 'consultations' are aimed at bringing in changes from April 2015:

- The ability to take all defined contribution (DC) plans as a lump sum at retirement.
- Introduction of a tax charge on death which will affect those that don't buy an annuity.
- Allowing over-75s to benefit from tax relief on pension contributions.
- Provision of impartial financial guidance to all pension savers at retirement.
- Minimum pension age to be linked to 10 years lower than state pension age.
- Intention to ban transfers from public sector defined benefit (DB) schemes into DC schemes, and to restrict transfers from private sector DB schemes.

It is worth remembering that there are perfectly good reasons to save in a pension and the changes proposed by George Osborne have not altered those reasons. For example:

- Tax relief on up to £40,000 contribution per year at a saver's highest income tax rate. This is especially important for earners in the higher rate tax band that can retire on basic rate retirement income.
- An annuity is still the best way to secure a guaranteed income for life for many people, and annuity purchase has effectively not been compulsory since 2006.



Retiring in 2014?

IF YOU HAVE HAD AN EYE ON RETIRING IN 2014 YOU SHOULD pause for thought and consider the following issues:

a) Income Drawdown sounds a lot more attractive now. Should I be using this instead of an annuity?

The annuity vs drawdown debate is likely to become more heated, but it does not change the fact that income drawdown is only suitable to those willing to continue to accept risk with their pension funds. The largest risk can be that the fund will perform poorly, especially in the early years, and this could be compounded if a high level of income is being taken. If you are relying on drawdown to provide retirement income over the long term then the fund needs to sustain your income.

If you are already considering income drawdown then these changes will probably make your decision even easier. But if you are not comfortable with drawdown then these changes are unlikely to make it suddenly become attractive to you. An annuity is effectively an insurance policy for outliving a pension pot so this is likely to remain the best way to guarantee your income over the rest of your lifetime. The pension savers that suit an annuity, especially where their pension fund value is over £30,000 are the ones that are unlikely to be affected at all by these changes.

b) My pension pots are less than £30,000. Should I opt to receive a lump sum?

The new rules mean there is more choice for pension savers who might otherwise be 'forced' to buy an annuity with a small pension pot because they could not take advantage of previous small pot rules, and drawdown was not suitable. Small pension pots don't normally attract the best value for an annuity and 'shopping around' can be limited to a small number of insurance companies so the new rules mean that, if you feel it is suitable, you could simply opt for a lump sum instead of a very small pension income for life.

The tax rules for small pots have not changed: 25% of the lump sum is paid free of tax and the balance is taxed as earned income. For defined contribution plans the plan value is used to test against the £30,000 limit, while defined benefit schemes are normally valued to the formula: (tax free cash lump sum) + (20 x income).

There are many changes arising from the 2014 Budget. Hopefully, the above will help clarify and put them into perspective. If you have specific questions please do talk to your Lowes Consultant or ring us on 0191 281 8811. We'll be pleased to help.

Sudoku solution

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

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

The gap between actual and perceived risk

HOW WE PERCEIVE OURSELVES TO BE IN RESPECT OF TAKING risk in our investments doesn't always correlate with how we actually invest. A survey among some 2000 adults in the UK, published by AXA Wealth in 2012 revealed some interesting facts. Each member of the survey group was first asked to rank themselves as investors, in categories from Very Cautious to Adventurous. 58% ranked themselves as Very Cautious (25%) or Cautious (23%).

Then each member of the group was asked to complete a 14-step risk questionnaire specifically designed to assess their risk appetite. In reality, emotion aside, only 6% still came out as Very Cautious. Instead, 36% were assessed as Cautious, with most people having moved up at least one category ranking.

This discrepancy is attributed to a psychological phenomenon described as 'recency bias', which causes us to focus on recent events – at the time the impact of the Financial Crisis and the resultant volatility in the stockmarkets, which had made the investors nervous.

Interestingly, a more recent study by asset management firm Schroders, revealed that 64% of UK investors surveyed are more confident about investment opportunities this year compared to 41% in 2013. Moreover, 67% of those investors were looking to invest in equities, which are usually deemed higher risk. This survey, of course, was concluded after a year in which markets rose – the FTSE was 14.4% up in 2013 and the equivalent US stockmarket, the S&P 500 was up 30%. All of which leads to a 'feel good' factor.

These surveys serve to illustrate the way human nature and emotion can affect investment decisions that are not based on solid research and constant monitoring of investment markets. In particular they can affect the DIY investor who jumps on the bandwagon when stocks are close to their peak and sells out when the stockmarkets are at or near the bottom of the curve. The dotcom boom in the late 1990s is a clear example of this trend, when so many people bought in to technology stocks when they were close to their all time high and sold after the market had plummeted. Since markets were going up and up they perceived the risk was less than it actually was.

Certainly, we will not be throwing caution to the wind on the back of the market rises in 2013 – our 43 years experience of managing money tells us otherwise. What we will be doing is looking to achieve a realistic assessment of the balance between growing investments and protecting our clients wealth, through diversified portfolios built on thorough investment research rather than emotion.

Spotlight on your Lowes Financial Consultant

Tim Dawson

TIM DIDN'T START LIFE WITHIN financial services, in fact prior to joining Lowes he was in the newspaper wholesale distribution market, working on the IT side. However, as WHSmiths and Menzies began hoovering up the independent distributors it became clear that a career move was on the cards.

"The industry that I knew was rapidly disappearing and an old school friend of mine who is a financial adviser suggested financial advice would be right for me. He gave me some books with an offer to join the firm" Tim says. He took a sabbatical between roles to start gaining the qualifications he would need and when he was ready, instead of jumping at the first job, he stood back and took a good look at the market. "I said to myself, if I could pick any firm to join, which firm would that be, and it was clear it would be Lowes. So I wrote to MD Ian Lowes, had a few interviews and I joined the company in January 2012."

So what was it about Lowes that stood out? "It was the stature and history of the company and the fact that it was highly respected and regarded in the market, both as a business and in the care of its clients. And when I pulled up in the drive at Holmwood House and walked through the front door for my first interview, there was just a good feel to the company."

Tim spent the first few months in the Technical Department and shadowing Ian Lowes in client meetings and then began taking on his own clients. From which point he has gone from strength to strength.

As someone who has come new to the role Tim says there are distinct qualities that a Financial Consultant needs. "Apart from all the technical knowledge, you have to be good at getting on with people, talking to them without the jargon that is so prevalent in our profession and above all you have to be good at listening. People have to trust you to tell you about their finances and for you to do the best job for them. At the end of the day there should be one person they can phone up and asks financial questions of and that should be you."

Asked what is the best part of the job, Tim says: "It's probably when you first meet a new client and you go through their finances and having worked out exactly what they have and what they need, you can say to them, actually you can take more income so you can live a better lifestyle and in addition you can go on that cruise you've always wanted to. That's when the job is very sweet."

Outside of work Tim is devoted to his family. Walking the family dog is his exercise, alongside playing "a little tennis" and circuit training once a week.

Doug's Digest

Lowes Investment Manager Doug Millward takes a look at how the Bank of England's forward guidance policy is working in theory and in practice

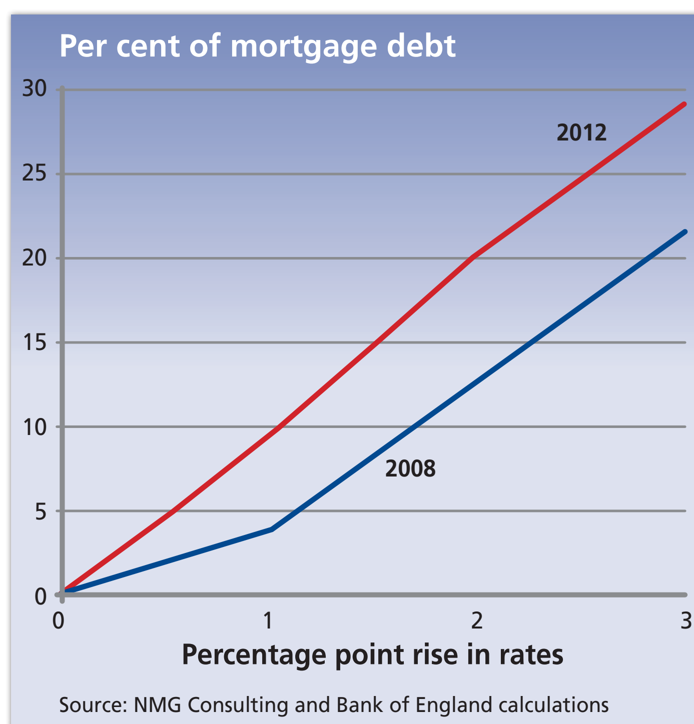
WHEN MARK CARNEY ISSUED forward guidance towards the end of 2013, it was welcomed by all as it gave a clear indication that the Bank of England had no intention of increasing the base rate in the short term. He stated that they wouldn't consider increasing the base rate until the UK unemployment rate fell to 7%, and because at that time this wasn't expected to happen until 2015, it provided a timescale that allowed people and businesses to plan accordingly.

In January of this year, however, unemployment fell much faster than expected, reaching a level of 7.1%, and as this was close to the level stated by Mark Carney, there were many headlines proclaiming that the base rate would be increased much sooner. I think by focusing on the detail in such a dogmatic way, commentators missed the whole point of forward guidance.

For one thing, when forward guidance was introduced, the unemployment rate was stressed as only being an indicator to consider increasing the base rate - it wasn't definitively linked. As unemployment wasn't expected to reach 7% before 2015, I feel that the message they were trying to give was that they didn't expect to increase the base rate until then. This was borne out by the guidance quickly being changed to link an increase to the much more intangible "output gap" - the unused productivity within the economy.

Interest rates are usually increased to dampen the economy when inflation is becoming an issue. By increasing rates people and businesses with mortgages or other borrowing have less free income and so can spend less, which then helps keep prices down. At present, however, inflation is currently below the government's chosen level of 2%, and with average wage increases currently below the rate of inflation, there is little pressure to move it upwards. If interest rates were increased now, therefore, it would put further stress on people's already stretched budgets, and this is something the Bank of England is very mindful of, as the current recovery in the UK economy is being led by consumers, and sapping away people's confidence and ability to spend could easily choke off what is still a fragile recovery.

This is backed up by the Bank of England's own research. The accompanying graph is taken from their June 2013 Stability Report, and shows the percentage of mortgage holders who will find it hard to keep up their repayments if the base rate is increased. A 1% rise in the base rate would lead to 9% of mortgage holders struggling to maintain payments, and this rises sharply to 20% for a 2% rise.



Source: NMG Consulting and Bank of England calculations

This is worse than in 2008 when people were considered to be too indebted for their level of income, and it appears that homeowners have used the period of low interest rates to re-finance their debts rather than reduce their borrowing. Hardly surprising when wages have been falling in real terms.

The Bank of England, therefore, will try to put off increasing rates at least until wages are once again increasing in line with inflation. This was expected to occur originally as unemployment fell, which explains the initial forward guidance. The linkage now to the output gap is perhaps a better indicator as only when the economy is closer to capacity, and jobs are more secure, will people be confident of asking for real pay rises.

Forward guidance remains a good policy and the markets have welcomed it. The only mistake was being too precise in its statements initially, which gave the headline writers a field day. One thing it has shown, of course, is that Mark Carney is quick to learn and not afraid to change his mind, and for the man in charge of our economy this can only be a good thing.

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.