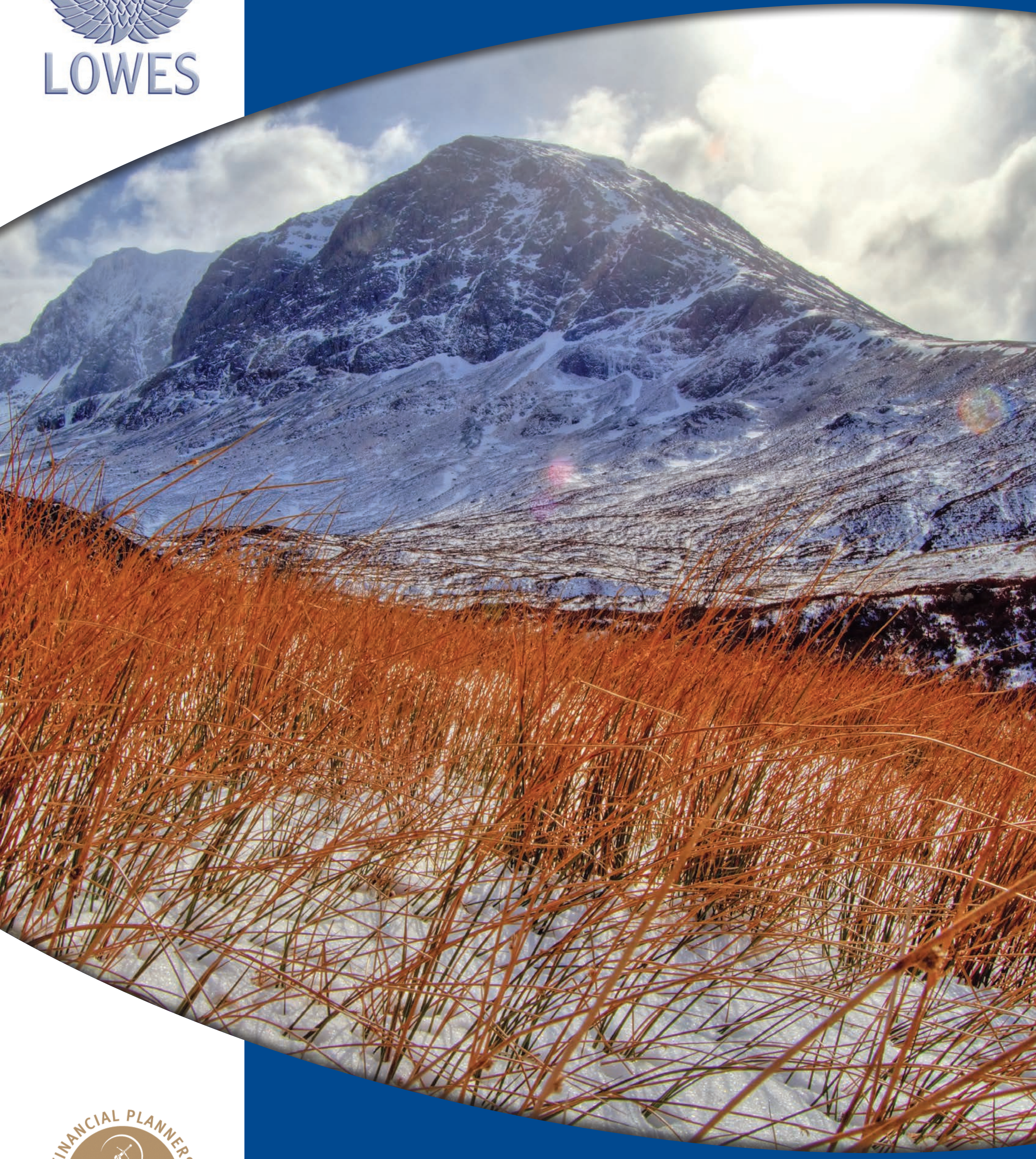
LOWES

Est. 1971

Autumn 2014



FINANCIAL PLANNERS CII CHARTERED

"The future depends on what you do today"
Mahatma Ghandi

Inside: Financial family planning

The things we do for charity

MEMBERS OF THE LOWES TEAM RECENTLY FOUND themselves suspended from a 330ft crane above the River Tyne as they undertook a Super Bungee Jump for charity.

The crane was positioned in HMS Galliope, the Royal Navy Reserve unit associated with Tyneside. Jackie Scott, Andrew Nelson, Molly Clavering and Stephanie McClarence made the 330ft jump benefiting the Tiny Lives, Rape Crisis and the Bobby Robson foundation charities. To put this into perspective, the top arch of the Tyne Bridge is 192ft high. Stephanie McClarence said: *"It was an exhilarating experience and while the nerves were mounting watching our MD Ian Lowes take the dive first, I'm so proud of us all for having the courage to do it and raise money for such worthwhile charities."*

Charitable giving

FROM A PERSONAL FINANCE PERSPECTIVE, IT IS WORTH NOTING THAT TO ENCOURAGE CHARITABLE GIVING, THE TREASURY has reduced the Inheritance tax (IHT) bill for anyone who gives 10% of their estate to a registered charity. The value of any assets over and above the nil rate band for IHT, frozen until 2017 at £325,000, is subject to IHT. Normally this would be taxed at 40%, but giving 10% of the net value of your estate to charity reduces this rate to 36%.

Beneficiaries will receive more of the estate if no charitable gift is made but if an individual was already intending to leave part of their estate to charity, then this may be an incentive, as it could enable them to leave more to charity without reducing the amount they leave to their other beneficiaries.

Writing your insurance policies in trust

The trauma of having a family member or close friend pass away can become more difficult by the complications and anxiety caused by someone dying without a will. This is called to 'die intestate' and can result in their wealth being distributed not in accordance with their wishes. So making a will is an essential part of financial planning.

Another beneficial strategy is to put insurance policies in trust, which is a very simple way of helping dependents. Here are some good reasons why using trusts should be considered. It can:

1. *Speed up payments by avoiding probate delays*
2. *Give trustees control, allowing your wealth to be divided in accordance with your wishes*
3. *Ease intestacy rules – trustees can do what the deceased would have wanted*
4. *Mitigate IHT risk – lowers the risk of paying 40% inheritance tax on the insurance policy proceeds*

It is a simple process to put an insurance policy in trust and can not only ensure the money goes to those that you want it to, but can also reduce the burden for those we leave behind.

■ ***Talk to your usual Lowes Consultant or call the office on 0191 281 8811 for more details.***

Our cover shot:
Ben Nevis
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Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Virgin Money	Easy Access E-Saver 12	1.30%	www.virginmoney.com
Branch, post	£1+	Virgin Money	Easy Access Saver 12	1.30%	Branch
Accounts with first year bonus					
Online	£1+	Post Office	Online Saver 12	1.40%	www.postoffice.co.uk
Fixed rate bonds					
Post	£1+	BM Savings	1 Year Fixed Rate Bond	1.85%	www.bmsavings.co.uk
Online, post, branch	£1,000+	Kent Reliance	2 Year Fixed Rate Bond	2.10%	www.krbs.com
Online, post	£5,000+	Shawbrook Bank	3 Year Fixed Rate Bond	2.50%	www.shawbrook.co.uk

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

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
2.4%	1.5%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 10 October 2014. All accounts subject to terms and conditions.

WINNER Investment Life & Pensions Moneyfacts Good Advice Awards 2011 Best Retirement Adviser
WINNER Investment Life & Pensions Moneyfacts Good Advice Awards 2010 Best Investment Adviser
WINNER Investment Life & Pensions Moneyfacts Good Advice Awards 2009 Best Tax and Estate Planner
Professional Adviser awards 2010 Winner Best IFA website
Professional Adviser awards 2010 Highly Commended Education
Professional Adviser PPR STRUCTURED PRODUCTS AWARDS 2013 Outstanding Contribution to the Market
Professional Adviser PPR STRUCTURED PRODUCTS AWARDS 2013 Best Adviser Communications

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.

Structured deposits as an alternative to cash ISAs

DESPITE TALK ABOUT THE BANK OF ENGLAND RAISING THE BASE rate, deposit cash account rates still are offering very low rates of return. Indeed, many providers have been reducing their rates in recent months, which is why any base rate rise is likely to do no more than restore rates to where they were earlier this year.

An alternative method of cash investing is to use structured deposits. As their name suggests these are deposit-based vehicles, which means they have the same protection as a bank or building society deposit account, but they are linked to the performance of the stock market, typically the FTSE 100. This means that they can give a better return over a set period of time.

These products are designed in a range of ways, with a defined percentage return, which could be:

- **A multiple of any rise in the index;**
- **A fixed growth rate after a set number of years; or**
- **An annual fixed rate of growth in what is known as an auto-call, which can mature on pre-defined annual anniversaries.**

They are linked to the performance of the stockmarket and typically at maturity of the product, require the FTSE 100 to be above its level at the start of the investment period, otherwise they usually just return the original capital with no interest. Occasionally however, there are products that offer positive returns even if the index has gone down by a pre-set percentage.

If you are interested in learning more, talk to your usual Lowes Consultant or this office on 0191 281 8811.

Want to know more?

If you'd like to find out more about any issue we have covered in this edition of the magazine, or you'd like information on anything we may not have covered, then please let us know. Either call us on 0191 281 8811 or talk to your usual Lowes Consultant. Our motto is "Where personal finances are cared for personally" – which means we're here to help.

Sudoku

We hope our clients who are fans of puzzles have been enjoying the Soduko we have been including in the recent issues of the magazine.

If you've not tried to solve one yet the instructions are below. But be warned, once you start they can be very addictive!

The idea is to fill the grid so that each row, column and 3 x 3 block contains the numbers 1 to 9.

You can find the solution on page 5.

Source: www.sudoku-puzzles.net

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

COMMENT

A government full of surprises

I HAVE TO ADMIT THAT I WAS SHOCKED BACK IN MARCH when the Chancellor announced the dramatic changes to pension rules which come into effect from next April.

New pension freedoms were announced that will allow unprecedented access to savers' pots. There will be no restriction on how much can be withdrawn from a pension pot after the 25% tax-free portion, and the whole pension could be taken as a one-off lump sum if the saver wanted to. I knew there'd be a catch and, of course, there were a few, but nothing too serious. For example, if the saver did decide to take their whole fund as a lump sum 75% of it will be subject to income tax and this could prove to be costly if it pushes them into a higher tax band.

I was almost equally as shocked when ahead of the Autumn Budget, the Prime Minister announced that the rate of tax on residual pension funds on a person's death would be set at 0%. Furthermore, transferring pension funds between family members on death appeared to be permitted.

So from next year, you can put money into a pension, get the sum uplifted by the tax man, invest it in a wide range of investments, get taxed at a reduced rate when you take it out, and what you leave in is available for a spouse or subsequent generations of your family. Whether that is to fund their retirement, save for their own children or another financial planning goal will be their choice.

The pension savings regime has been tinkered and changed throughout my lifetime, but the changes made recently represent an evolution like no other. Pensions have now been put on a more level playing field with ISAs. Joint and Family Pensions will be next.

Like never before, careful planning throughout retirement considering all assets, ISAs and pension funds available, could be the difference between you and your family paying a lot of tax or, potentially very little at all.

Mistakes could be costly and irreversible. For example, a 55 year old gentleman recently told me that given that his pension fund was relatively small and as such wouldn't produce much of a pension income, he intended to take advantage of the new pension freedoms and withdraw the whole fund next year and put the money in the bank. This will indeed be allowed, but I can categorically state that under virtually no circumstances whatsoever will this be the right move for anyone.

We are in the business of building long term relationships and there will be nothing more long term than a pension fund legacy that can be contributed to and passed between family members - if we are not already in contact with other members of your family, please ask them to get in touch.

Ian H Lowes,
Managing Director

LOWES
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 ahead in IMA Challenge

IT'S NOT OFTEN THAT A SMALL COMPANY CAN POTENTIALLY triumph over an industry trade body. But standing by our principles and faith in our research and investment capabilities, Lowes is thus far on target to win its friendly challenge with the Investment Management Association (IMA), the trade body for the £5 trillion UK asset management industry. This challenge pitched the IMA's choice of FTSE 100 tracker fund against a mini-portfolio of FTSE 100-linked structured products selected by the Lowes' team.

Back in April 2011, the IMA published a paper that compared tracker funds against a NS&I Guaranteed Equity Bond (GEB), which the IMA declared as a 'typical' structured product and argued that structured products were not good value as investments.

We and other firms in the structured product market responded, pointing out that GEBs could not be seen as a proxy for the structured products market, which encompassed a far wider universe of investment structure, but the IMA remained unconvinced.

So we decided to use a real case study and offered a 'friendly' challenge to the IMA to compare the performance of a major unit trust tracker fund with a range of structured products, representing a similar holding in the market.

We are not suggesting that tracker funds and structured products are directly comparable, but they are both passive investments. Also, as a tracker was the basis of the IMA's comparative paper with a 'structured product', we looked to pitch our portfolio of five structured products against a tracker fund chosen by the IMA.

Richard Saunders, the then director general of the IMA, accepted our 'friendly' challenge and the IMA selected the HSBC FTSE 100 Index Fund as its representative tracker fund. The challenge was based on a buy-and-hold strategy and has an end date of 31 December 2017. The winner is to receive a bottle of champagne from the loser.

Our structured product portfolio comprises, in equal weighting, five structured products which were on our 'Recommended Products List' on the 23rd June 2011. Each of the constituents was carefully selected for their individual properties, which when blended together make for a powerful combination of investments.

Investment	% Value September 2014
HSBC FTSE 100 Index Fund	125.50
Morgan Stanley FTSE Defensive Digital Growth Plan 4	133.29
Morgan Stanley FTSE Kick Out Growth Plan 11	150.00*
Gilliat Growth Multiplier June 2011 Edition	133.04
Investec FTSE 100 Geared Returns Plan 26	138.52
Meteor Dynamic FTSE Growth Plan 2	133.89

*In July, the auto-call structured product in our portfolio matured delivering a 50% return on capital. The performance of the remaining products – as well as the FTSE 100 tracker fund – are shown in the table above.

As can be seen all the structured products are outperforming the tracker both individually and as a portfolio.

From the maturity of the Morgan Stanley product in July the writing was on the wall for the tracker fund. At that point in order to outperform the structured products in a rising market, the tracker fund would have had to achieve a rate of growth of around 8.75% per annum (assuming it returned the rise in the FTSE 100 plus 3% extra). In other words, the FTSE 100 would have to rise to a level in excess of 9,000 points by 31 December 2017, which is considered an unlikely event.

So, while there is still some way to go in our challenge with the IMA, barring a dramatic stock market event where the remaining four products drop 50% from their strike level (which means the FTSE 100 would have to fall below 3,000 points, last seen in 1995), or one of the counterparties becomes insolvent, we are anticipating the popping of the champagne cork will be in Holmwood House rather than in the IMA offices on Kingsway, London.

More importantly, the challenge will demonstrate the value of structured products both as single investments and when combined as a mini portfolio of products. Here at Lowes, we also see the value of active investing, with our investment team researching the most consistent funds to place in investors' portfolios, often alongside structured products.

Fund performance comparison

LOWES USES THE PRINCIPLE OF DIVERSIFICATION IN THE investment portfolios that we construct for our clients, to spread the risk with the aim of providing a smoother investment ride.

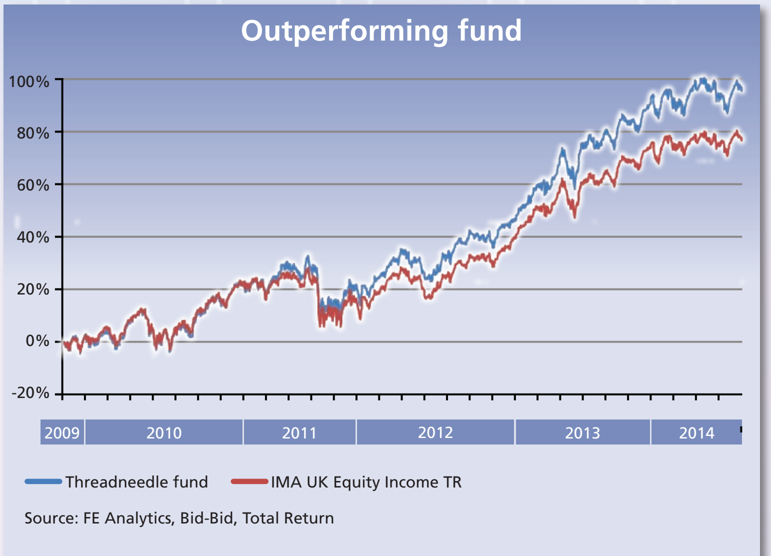
As might be expected, as we go through investment cycles, some funds will perform better than others that are run in a fashion that is out of sync with the cycle. We are constantly monitoring and reviewing the funds we hold and when a fund isn't performing as well as we would expect, we have to make a decision about whether or not to hold on to it.

We can demonstrate this situation using two investments that we hold in our core portfolios, one that is considerably outperforming the average of its peers and one that hasn't been doing so well.

One of the best performing funds in the portfolios is the Threadneedle fund, co-managed by a highly regarded team. The objective of this fund is to provide income with the potential to grow the amount invested. The fund has delivered 3.9% income (or yield) for investors (at 31 August).

As can be seen by the chart since September 2009, combining yield and growth in the price of the shares it holds, the fund has risen by nearly 90% and is beating its sector average by around 20%. Not surprisingly, it has been among the 25% of top performing funds in its comparable sector for the past few years.

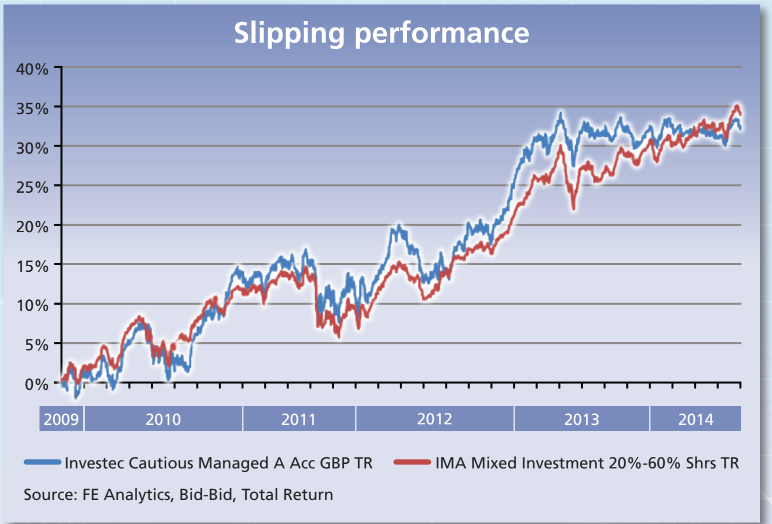
However, its performance hasn't always been this good. While it was in the top quarter of funds in 2007 and 2008, 2009 saw the fund drop down to the lowest 25% of the sector. This demonstrates the necessity to monitor funds even when they are doing well.



In comparison, the Investec Cautious Managed fund, one we have also held for some time, is underperforming. The objective of this fund is to provide a combination of income and long-term growth by investing conservatively in a diversified portfolio of stocks and shares, bonds and other fixed interest investments.

The fund has been managed since 2002 by Alastair Mundy, a fund manager we hold in high regard and who often takes a contrary view to other managers in the market, which has produced good returns for our portfolios over the years.

The chart shows that the Investec fund has slipped in performance since the summer of 2013, when compared against its sector and over the past five years, it hasn't made as much as simply following the sector average would have done.



We speak to managers on a regular basis and Alastair Mundy believes stocks and shares have followed a strong rising trend since the bottom of the market in 2009. In terms of their ability to re-rate, he thinks they do not offer as much potential upside now. Because of this he has adopted a 'defensive position', taking some money out of the stock market and holding it in cash and government bonds. The idea of this strategy is to have assets that can be sold quickly to buy back into stocks and shares when the market looks ready to rise again or he finds a particular good buy. To date, his strategy has been out of sync with the market which has continued to rise, causing Mundy's fund to underperform. In the light of this, we reviewed whether we should hold the fund going forward. However, Mundy's fund has been among the top 25% of all funds in the same sector in 7 out of the past 10 years. His track record is so strong that we feel comfortable holding onto this fund, as we believe it is likely to start performing when others may drop off, which will help balance and smooth out the performance of our portfolios.

Sudoku solution

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

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

Past performance is not a guide to the future.

PLANNING

Financial planning as a family

Thinking as a family when it comes to financial planning can save you tax, ensure you maximise your saving and investment opportunities and benefit the ones you love. Here are some pointers to consider.

Parents investing for children

As parents we want to help provide for our children's future and investing in the stock market is a means to building a useful portfolio for children, through funds and similar investments.

The bad news is that parents who invest for their children under the age of 18 need to be aware that even though their child may not be earning and so not paying income tax, any income that is deemed to have been paid from investment funds that is over £100 a year, gross payment, is assessed on the parent's rate of income tax.

This is to stop excessive gifts from parents.

The good news is that grandparents who invest for their grandchildren are not caught by the same rule. Therefore, beyond a certain level of capital invested, which is not that large (£2000 invested at 5% return reaches the £100 limit), it pays, where possible, for grandparents to invest for their grandchildren.

Junior tax wrappers

As well as every adult member of the family making as much use as possible of their annual ISA allowance (up to £15,000), investing in a Junior ISA (JISA) ensures that when children do become tax payers, not only have they been exposed to a savings culture, but the JISA investments are then transferred into a full ISA account. So they continue to receive the benefits of being invested in the tax wrapper – i.e. income and gains are free of CGT and income tax. Since July 2014, the JISA limit has been £4,000.

Also, parents and grandparents can make contributions into a pension for children and grandchildren up to a total value £3,600 a year. The pension contributions benefit from tax relief even though the child may not be a tax payer, which means that only £2,880 has to be paid in to achieve the £3,600 maximum.

Husband/wife CGT exemptions

Everyone has an annual exemption from Capital Gains Tax (CGT) to a set amount; in the 2014-2015 tax year the amount for individuals is £11,000. From a personal investment perspective it is important to make use of this allowance, as it can be employed for creating cash for income generation as well as sheltering capital growth payments.

For married couples or people in civil partnerships, it can pay to transfer ownership of funds, stocks and shares or even buy-to-let property, between partners. This is a way to make maximum use of both partners' CGT exemption.

A person holding several assets that will generate more than £11,000 in CGT when sold, may want to transfer some or all of the assets to their partner. As the transfer of the asset will not be subject to CGT under the inter-spouse exemption rules, on sale they can each make use of their own CGT allowance, combined up to £22,000 total CGT exemptions.

Similarly, where one person has used up their CGT exemption for the year and needs to sell an asset, it can pay to transfer that asset across to their partner.

One point to note, however, is that when the asset is finally sold, the CGT calculation is based on the gains from the original date of purchase not the date of transfer, even though the asset has changed hands.

Assigning insurance bonds and income tax

Insurance/investment bonds are not liable to CGT, but they are subject to income tax. Where a couple have different rates of income tax, and the spouse paying the higher rate of tax wishes to cash in the bond, it can pay for the bond to be assigned to the lowest tax payer of the couple to cash in, thereby reducing the tax bill for the couple as a whole.

Annual gift exemptions between family members

Family members are allowed to gift to one another set sums per year, which will immediately fall outside of the donor's estate for inheritance tax purposes.

The annual exemption per donor is £3,000. In addition, parents can make exempt gifts to children on marriage or civil partnerships of up to £5,000 and grandparents can gift up to £2,500.

Up to a further £1,000 in total can also be donated by any individual to others when they get married.

One gift exemption that is often overlooked is the small gifts donation. Gifts of up to £250 can be made to an unlimited number of people, even outside of the family. However, a person receiving £250 cannot then be the recipient of the £3,000 gift as well.

Maximising a couple's income tax allowance

Where a couple pay different rates of tax and the higher rate tax payer holds investments outside of an ISA, it can be beneficial to transfer the assets to their spouse or civil partner paying the lower tax rate to decrease the income tax bill on those assets.

Even where the income might take the lower rate taxpayer into the higher rate bracket, as higher rate tax is taken only on the proportion of income above the threshold, the savings at the lower rate are likely to be beneficial. However, proper calculations will need to be made and it should be noted HMRC might want annual tax forms completed in future.

Couples and IHT

Setting up a discretionary nil rate band trust can direct assets, up to the value of the Inheritance Tax nil rate band (£325,000) each, into a trust for beneficiaries. The assets, as well any subsequent growth on those assets, will be kept outside of the beneficiaries' own estate for IHT purposes on their death. As assets of a trust, they would also be excluded from bankruptcy or in some cases, divorce proceedings.

This couldn't reduce the donor's IHT liabilities, but it is a way for the eventual beneficiaries, children for example, to benefit from sheltering up to £650,000 of their parents' estate from their own IHT liability.

Property split

Where homes are owned 50/50, commonly known as tenancy in common, this allows for each person to put their part of the property in trust to advantage their beneficiaries. This can be a good way to arrange a couple's total assets for IHT planning, especially when using nil rate band trusts. Where one spouse has considerably more assets than the other, it can make sense to rebalance the couple's total worth, taking into account any income and capital gains issues noted above, so they have roughly equal value in each of their estates to make more efficient use of each individual's nil rate band.

Income splitting

Owner-managers can use their companies to pay tax-efficient dividends on ordinary shares to their spouses as long as they fall within the 'intra spousal outright gifts exemption'. This was highlighted in the 'Arctic Systems case', which HMRC lost.

It can be safe to give shares to family members and partners in order to pay dividends and use up the personal income tax allowance to save tax.

However, HMRC will challenge this if share transactions and receiving dividends are simply a mechanism to get dividends away from the fee-earning husbands into the hands of the non-fee earning wives. Hence, this needs careful tax planning.

Gifts with reservation of benefit

An area we are often asked about is gifting assets to children or grandchildren, whilst still retaining some benefit or influence over it. A common example is gifting a property while the donor still lives in it. This is ineffective for IHT planning due to HMRC's 'gift with reservation of benefit' rules (GWROB) which state the property was never gifted in the first place. One way to avoid the GWROB rules is, unfortunately, to simply pay full market rent for the property to the new owners

Family SIPP property purchase

Rules for SIPPs allow for an individual SIPP to borrow up to 50% of the value of a commercial property. Where a family owns a business and, for example, a father and son want to buy the commercial property they use for the business and they each have their own SIPP, they can pool their SIPP resources in/ order to buy the property.

How we 'feel' about our investments

WE WERE RECENTLY INVITED TO ATTEND an industry investment conference, where we had the opportunity to sit down with twelve different fund managers over a period of two days, giving us the chance to question them on their processes and hear their views on the investment landscape going forward. Whilst this, as always, proved invaluable, the stand out presentation for me was a guest speaker talking on the subject of Behavioural Finance.

This subject relates human psychology to how we react when making and reviewing our investments. For example, studies have shown that people "feel" losses twice as much as they do an equivalent gain. Yet ironically, people are often quick to cash in an investment that has made a gain, but are reluctant to sell an investment that has fallen in value, as they don't want to admit they've made a mistake and they hope the investment will recoup its losses.

There were many other interesting and useful points made - too many to cover in this article. I shall, however, relate two of the main ones to give a flavour of how an understanding of the subject can help us when making investment decisions.

First was a demonstration of how people don't like to stand out from a group. This was proven by a series of experiments conducted in the 1950s by Solomon Asch, who showed the picture detailed in figure 1 to a group of people and asked them which line was the same length as the one on the left.

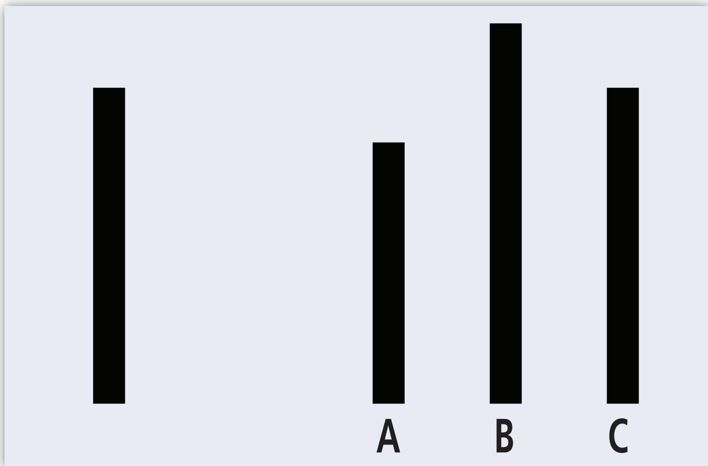


Figure 1

This is not a trick or an optical illusion – the correct answer is line 'C'. The catch came in the group of people involved. Only one person in the group was the subject of the experiment, and all the others were there as stooges, to give the same, but wrong, answer first. The result was that, despite the correct answer being obvious, over 75% of people followed the answer of the rest of the group, rather than stand out. The same experiment was then repeated, but this time one person in the group broke from the others and gave the correct answer. When this happened, the subject of the experiment was much more likely to give the correct answer, just because one other person had done so.

The second point I'd like to highlight is the effect our own personal viewpoint can have on our ability to objectively review something. This was cleverly demonstrated by the picture shown in figure 2, where you have to work out the number on the parking space occupied by the car. I'll give the answer at the end.

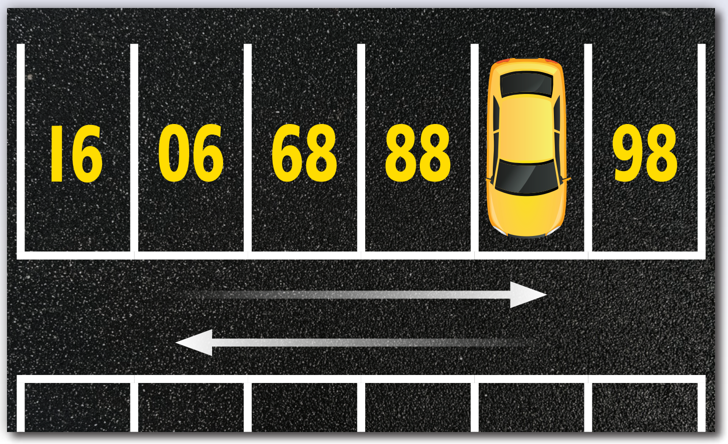


Figure 2

This example is particularly relevant to our investment decisions. If, like me, you have a keen interest in technology, for example, you are likely to give more weight to the positives about investing in a technology fund, and less the negatives.

All this would point towards the value of independent financial advice, but, of course, as human beings we are just as exposed to these biases as anyone. The important thing, therefore, and the lesson we took away from the presentation, is not to try to alter our behaviour, which is often subconscious, but be aware what these biases are, and put checks and measures in accordingly. For example, when holding meetings where there is the possibility that people will follow the herd, we can use the result of the Asch experiment, and have someone deliberately act as devil's advocate, regardless of their own opinion, as their questioning makes it easier for others who do disagree to break with the consensus view. Also, when using research by a third party we must validate that their views and conclusions are truly independent and not just a repeat of what others have said.

When choosing and reviewing investments at Lowes, we always present our findings to one another. Not necessarily in a formal way, but just knowing that we will have to talk through and explain our decision helps keep us on the right lines while coming to a conclusion.

So we are comfortable that, despite being human, being aware of how we influence our own thinking without realising it, and adjusting our processes accordingly to counteract this, will help us make decisions for the correct reasons and not because of our subconscious biases.

Finally, back to the car park. If, like me, you couldn't work it out, then remember I was talking about our viewpoint affecting our reasoning, and turn the page upside down. The car is parked in space 87. I took heart in the fact that my colleague, Paul Milburn, worked this out straight away, which I feel shows we are a well balanced team!

By George, he's done it again!

New pension death benefit rules are unexpectedly generous

AT THE TIME OF WRITING, GEORGE OSBORNE HAD just released the initial details of his new pension death benefit regime. The changes are significant for defined contribution pensions, and are arguably more generous than the unexpected freedom of access rules he announced in March, because of two main reasons:

- *For the first time pension death benefits can be passed down family generations, free of inheritance tax (IHT).*
- *Where the pensioner dies before age 75, beneficiaries will not have to pay any tax on any funds drawn from inherited pension benefits.*

It also offers the opportunity to use pensions as an alternative IHT planning strategy, with the added advantage of having access to your fund from age 55, which is not normally allowed in traditional IHT planning.

Further details are expected in the Budget Autumn Statement, but for the time being the new rules mean there will be three death benefit options for nominated beneficiaries from 6 April 2015:

1. Retain the pension plan for future tax free growth

Unlike ISAs, this will be free of IHT for the pension saver, and for the beneficiary. The fund will continue to grow in the tax advantaged pension environment without income tax or CGT.

2. Flexible access to income / ad hoc lump sums

The fund can be used to provide income for the beneficiary, by either regular withdrawals or ad hoc lump sums. Under the new pension freedom of access rules there will be no cap on what can be withdrawn. If the pension saver dies before age 75 the beneficiary will have no tax to pay on any withdrawals, and if the saver dies after 75 the beneficiary will be taxed on withdrawals at their own marginal income tax rate.

3. Take the full fund as a lump sum

If the pension saver dies before age 75 there is no tax on the fund, but on death after 75 the fund is taxed at 45%. In both cases the fund comes into the beneficiary's own estate for IHT purposes.

Please speak to your Consultant if you would like to discuss how the new pension rules will affect you.

Maximising your pension contributions

With pension investing becoming much more attractive from April 2015, it is worth thinking about making those pension contributions in the first place.

As with any tax-advantaged saving there is a limit on how much you can put in each year. The maximum you can contribute to all pension plans in any tax year is the higher of £3,600; 100% of your UK earnings; or the Annual Allowance, currently £40,000 gross per year. Some concession has been made to those who have a spike in earnings, possibly from a bonus or redundancy payment, so that they can 'carry forward' unused relief from the last three tax years and pay more than £40,000 in one year. Pension plans reclaim 20% basic rate income tax relief directly from HMRC on our behalf, so you only have to invest £800 net to receive £1,000 in your pension. Higher rate tax payers reclaim any additional tax relief via self assessment, as a tax reducer against other sources rather than as cash into their pension.

Income from UK employment, self-employment or from a partnership all qualify for tax relived pension contributions. These are 'relevant UK earnings' and HMRC's list also includes: benefits in kind for directors; statutory sick/maternity/paternity/adoption pay that is paid by the employer; permanent health insurance paid by employer; taxable pay in lieu of notice; and income from furnished holiday lets.

The first £30,000 of a redundancy payment is tax free, but this can also be used to fund a pension contribution. For higher rate income tax payers it can be particularly tax-efficient to direct this lump sum into a pension to take advantage of the higher rate income tax relief, especially if you expect to be a basic rate tax payer in retirement.

It is also necessary to consider these important sources of income that aren't allowed to support your pension contributions: dividends; property rental; pension, including income drawdown; savings; non-taxable redundancy payments; and any state benefits.

Please speak to your usual Lowes Consultant if you are interested in maximising your pension contributions.

The need for financial advice in divorce cases

THE AVERAGE COST OF DIVORCE HAS INCREASED NEARLY 60% in eight years according to research by life and pensions giant Aviva. When Aviva last carried out the survey, in 2006, the cost of divorce was around £28,000. While the data suggests legal fees for divorce have actually fallen over the period - from £1,818 to £1,280 due to cheaper online services – additional costs such as moving house and child maintenance payments mean the overall price of separation has risen to £44,000.

Two thirds of couples that are married or co-habiting have some shared finances, so these arrangements can take some time to unravel if a relationship breaks down.

The main assets in a divorce situation are the family home and pension benefits. Key areas that need to be addressed when a marriage breaks down are:

- *Influence of pre and post nuptial agreement(s)*
- *Provision of home and maintenance for children of marriage*
- *Pension sharing*
- *Investment portfolio splitting and financial planning of new portfolios*
- *Post divorce financial planning, including will writing*
- *Financial protection after the divorce*

Couples wanting to divorce must now initially do so through mediation rather than battle it out in court and having a full and up-to-date financial picture that takes into account the needs of individual parties, particularly where children are involved, can facilitate this process.

Also, it is as important to consider financial planning straight after a divorce, as it is during the process. For example, are the investment strategies of a married couple with two incomes still appropriate post-divorce? A divorced investor might want to tone down an aggressive portfolio to a less risky, more cautious approach.

It is often the case that people just want to want to get to the decree absolute 'to get it over with' and to move on with their lives. The danger here is that this can lead to snap decisions, such as around property and disposal of assets, resulting in both parties losing out, particularly from a tax perspective. Therefore, it is important that financial planning, preferably from an impartial third party is considered as early in the process as possible.

Financial planning post divorce

AFTER DIVORCE MANY PEOPLE GO ON TO START A NEW relationship or marry again. This can bring new issues into the financial planning picture. This is particularly so when there may be stepchildren involved, possibly on both sides.

Who provides financially or saves what for which child and how assets are split can all require planning to ensure those who need it are cared for and to avoid family disputes.

The straightforward approach to 'who gets what' on death and how dependent children are financially cared for becomes more complicated. For IHT purposes leaving all assets to your spouse can be the most tax efficient arrangement. But where there are children from previous relationships matters can be more complicated.

The first step is not to put off the decisions, because they can be hard ones to make, with strong emotions involved. In fact complicated family arrangements can often be the ones less likely to have good planning in place.

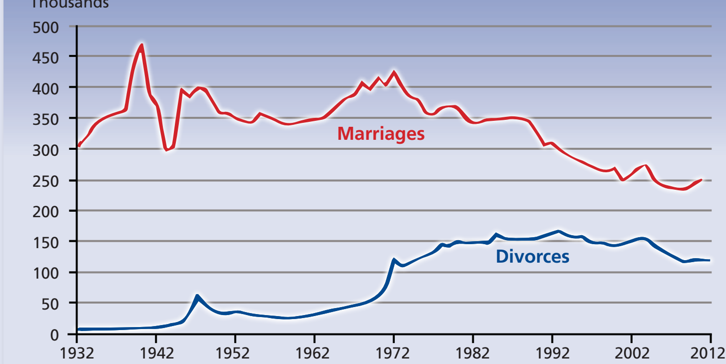
If you pay maintenance income for children from a previous relationship, then protecting this arrangement financially against your illness or death needs to be considered alongside other life assurances you may have. You can have more than one policy with different beneficiaries, and each policy can be put in trust for a child, a useful way of controlling who benefits.

If you receive an income from an ex-partner and rely on this, then you may be able to take out an insurance policy on your ex-partner's life. All life assurance policies require there to be an 'insurable interest', for example, where one party will suffer financially following the death of the person whose life is insured. A good example would be maintenance payments received for shared children.

Inheritance issues also need to be carefully considered. If you have remarried, then unless you have written a will, your current spouse is likely to inherit the bulk of your wealth and assets and in turn their children, and / or your children from this relationship.

Children from a previous relationship are excluded. This can be corrected by writing a will or arranging a life insurance policy to cover this inheritance disparity.

Figure 1: Number of marriages and divorces, 1932 - 2012
England and Wales



Source: Office for National Statistics

5 top tips from Lowes staff on saving money

AS AN INDEPENDENT FINANCIAL ADVISER FIRM, WE SPEND ALL DAY managing money through well researched savings and investments strategies. But money management isn't all about investment. We asked Lowes staff to come up with the best money saving tip they have employed in the past year – no matter what it related to. Here are the top five.

1. Review your savings rates

Review your cash ISA rates regularly and watch for when headline ISA rates drop and move your money to a better deal. Providers of ISA savings accounts entice us in with higher rates of interest, but those rates can be cut further down the line. People who opened a cash (N)ISA this year may find that the provider has already cut their rate of interest.

2. Look at remortgaging

As the consensus is that interest rates are about to rise, this could be the right time to look at remortgaging to a potentially better deal, especially as a number of big name banks and building societies have recently reduced their fixed rate mortgages.

While interest rates are not expected to rise rapidly, most mortgages in the UK are variable rate, so rates tend to go up and down with the Bank of England Base Rate. Do the sums – most providers offer mortgage calculators on their website, and look at the terms and conditions of both your existing mortgage and any replacement, particularly areas like exit charges.

3. Opting for a regular income life policy rather than a lump sum

Often when people select life insurance cover they pick policies that pay out a lump sum to their beneficiaries on death. This can be an advantage where there is a mortgage to pay off, but where there are no big ticket items to settle an alternative is to buy a policy that pays a regular income for a set period of time. This can be linked to inflation to keep the spending power in line with rising prices and help to maintain a family lifestyle.

4. Write down a budget

As simple and common sense as this may seem, it is surprising how many people don't do it. One of the key principles of financial advice is planning and that applies as much to next week as it does to five, 10 or 20 years ahead. It pays also to bear in mind that life can occasionally throw a curved ball at us, so knowing our expenditure limits and having some contingency money set aside can be a prudent strategy no matter what our level of wealth.

5. Make the most of the annual gift exemption to reduce your future IHT

HMRC allows us to give certain levels of assets away every year, which will then not be counted as part of our estate for inheritance tax purposes. These include set lump sum payments, which are covered in our family financial planning article, but also any regular gifts made out of after-tax income, not including your capital. These gifts will only qualify if the person has enough income left after gifting them to maintain their normal lifestyle. These include:

- monthly or other regular payments to someone
- regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries
- regular premiums on a life insurance policy - for you or someone else.

Spotlight on your Lowes Financial Consultant

Gary Summers

IF HE HADN'T ENTERED FINANCIAL SERVICES Gary Summers, the Lowes Financial Consultant in the south east of England, would have been a rock guitarist. In fact, this was the career he pursued until age 30, obtaining a recording contract and playing live gigs around the country. But when the record company started dragging its feet, Gary felt he should "find a proper job, as my mum called it". "Back then, recording and distributing music was a very different process to today when you can make and market a record cheaply via the internet," he explains. "In those days you were very much in the hands of the record companies."

Gary saw an advert for the Prudential insurance company and became the proverbial 'man from the Pru'. He was promoted to section supervisor but "saw the writing on the wall" when Prudential started to make changes to its system. He left to join Allied Dunbar and later Eagle Star, companies that have since been swallowed up by the mergers and acquisitions in the market.

While working for these companies, Gary was limited to selling a panel of products. "I decided I wanted to become independent, so that I could recommend the best solutions in the market not just ones from a limited panel. So when I discovered Lowes was looking for a representative to cover the south east of England, I applied."

That was 18 years ago. "I have been with Lowes ever since, although I am not the longest serving Consultant in the company.

Over that 18 years Gary says he has seen a lot of change but what hasn't changed, he says, is "the best bit of the job, which is meeting people face-to-face, hearing about their situation and helping them sort out their investments and tax affairs."

Gary travels all across the south of England, with clients stretching from Kent to as far afield as Bristol and Birmingham and he can be out on the road three days a week. His trips to see his clients are planned even sometimes up to a year in advance. "I usually sit down at Christmas time and work out where I'm going to be, and making sure I see as many clients as possible who are in the same area," he says. "I've got great clients, some of whom have been with me for the past 18 years and who keep me going by referring me to their friends and family."

Being out on the road so much means he has to have great support in the office. Gary's wife Caroline provided that support until last year when, sadly, she passed away. His son Alex took over the role when his mother was ill and now fully supports Gary as his assistant. "Alex is taking his financial services exams with a view to also becoming a financial consultant. We're keeping it in the family," Gary says.

Targeting double digit returns

At Lowes we endeavour to find our clients the best solutions the market has to offer. This is one such solution which we believe is worthy of consideration for those who understand the risks and commitment.

THE ACCOMPANYING INVESTMENT FROM WALKER CRIPS (the stockbroker with a hundred year pedigree, not the potato snack people) is offering investors the potential to achieve a gain of 10% for each year held, based on the performance of the UK and US stockmarkets. The UK market is represented by the FTSE 100 Index, which represents the 100 most highly capitalised blue chip companies listed on the London Stock Exchange, and the US is represented by the S&P 500, which represents 500 of the top companies in leading industries of the US economy.

If you wish to take advantage of this offer, we require completed applications and cheque by 13th November 2014. The closing date for Stocks and Shares ISA transfers is 24th October 2014 and for Cash ISA transfers is 31st October 2014 – please contact us urgently on 0191 281 8811 to request transfer application forms if required.

The product literature states that the minimum investment is £10,000, however we have negotiated special terms for Lowes clients which lowers this minimum investment to £5,000.

The potential returns:

This six-year structured investment has the potential to reward you with a 10% gain for each year the plan has been in force (not compounded) depending on the performance of the FTSE 100 Index and S&P 500 Index.

The plan will mature early on any anniversary from the second anniversary onwards provided both the FTSE 100 and S&P 500 Indices close equal to or above the initial levels recorded on 21st November 2014 (the Initial Index Levels). If an early maturity occurs, the invested capital will be returned in full, in addition to a 10% gain for each year the plan has been in force.

For example, if on the second anniversary (21st November 2016) both indices close equal to or above their initial levels, the plan will mature early returning your capital in full, plus a gain of 20%. If the plan does not mature early, it will continue until the third anniversary and so on, for up to six years.

The potential risks:

If UK and US markets perform poorly to the extent that both indices are not above their Initial Index Levels on any anniversary, the plan will not produce a gain. Investors' capital should be returned in full, unless one or both of the indices are more than 40% below their respective Initial Index Levels on the sixth anniversary.

If such a fall does occur, you will suffer a reduction to your capital. It should be appreciated that the addition of a second index increases the risk of the capital protection barrier being breached at maturity when compared to a single index plan and any resulting reduction to invested capital will be in line with the fall in the worst performing index. For example, if the final index levels are 10% up for one index and 45% down for the other, investors will suffer a reduction to their capital of 45%.

The counterparty to this investment is Santander UK plc, a high street bank with an 'A' rating from Standard & Poor's credit rating agency, indicating they have a 'strong' capacity to meet their financial obligations. However, if the bank goes bust during the investment term, you could lose all your invested capital.

Accordingly, this is an investment that is not appropriate for those who do not want to put their capital at risk. However, for those who are prepared to accept the risks we believe it offers a potentially attractive return for part of an investment portfolio.

This is designed as a six-year investment and whilst you could gain access to your capital other than at a triggered, pre-defined maturity the value may be less than the invested capital.

Taxation: Under current legislation, where the investment is held outside a tax shelter such as an ISA, any gains would be subject to Capital Gains Tax. This could prove to be favourable, as total gains achieved by an individual in a tax year of less than the annual Capital Gains Tax allowance (currently £11,000) are tax free and any excess is currently taxed at only 18% for basic rate tax payers and 28% for higher rate tax payer.

Intermediation Fees: Following the Regulatory changes introduced in January 2013, our charges are no longer incorporated in the terms of any such investment and instead our fee which, for this plan is 3 percent, will be deducted from the total investment amount by Walker Crips at outset and paid to Lowes. Any application will also serve as the relevant authority for Lowes to be paid in this manner via Walker Crips unless the application is accompanied by a separate cheque payable to Lowes Financial Management for the 3 percent fee. For example, an investment of £10,000 would result in a fee of £300 being due to Lowes Financial Management. There will be no on-going or annual fees.

The investment is, of course, not right for everyone and this promotion should not be construed as personal advice. If you have any doubts about the suitability of this, or any investment for you, please contact this office on 0191 281 8811 or your usual Lowes Consultant.