LOWES

Spring **2013**

"As knowledge increases, wonder deepens"
Charles Morgan

FINANCIAL PLANNERS CII CHARTERED

Living North Live

LOWES WAS ONCE AGAIN MAIN SPONSOR AT LIVING NORTH LIVE, the lifestyle and finance event that takes place every spring at Newcastle racecourse.

This year saw more than 15,000 visitors come through the gates looking for ideas and information on a range of products and services. Our Consultants were on hand throughout the weekend providing financial tips and guidance for people who came to the Lowes' stand.

Our competition for the weekend was the chance to win a luxury Golf Break at Close House Hotel near Hexham and our congratulations go to winner of the competition, Mrs B. Thompson from Wolsingham.

Sad news

IT IS WITH MUCH SADNESS THAT WE have to report the passing of Caroline Summers, wife and secretary to Consultant Gary Summers.

Many of you will have known Caroline either from meeting her personally or over the phone. Gary and Alex, their son, have asked us to say how grateful Caroline was for all the cards and messages she received while she was ill and although she was unable to respond to them personally they would like to thank everyone who contacted them for their kind wishes and support.

** Lowes has made a donation to FACT, the local cancer charity that provides support and social opportunities for people who are going through the cancer journey, as well as help for their families and friends. The cheque was presented to FACTs founder Joanne Smith at a recent charity function.*

The 2013 Client Competition

WE WERE DELIGHTED TO SEE SO MANY OF OUR CLIENTS keen to enter the Lowes Magazine annual competition.

This year we have asked you to predict whether the share price of six well-known companies will be higher or lower come 31 December 2013. The prize for the winner will be a Kindle Fire HD.

The closing date for entries has now passed and we can report that the company that most entrants believe is likely to have a higher share price in December is BP, and the company most entrants expect to have the lower share price is British American Tobacco.

As we know, the stockmarket can be an unpredictable place in the short term so where the share prices will be at the end of the year we can only wait to see. Good luck to everyone who has entered.

Lowes Tax Guide

Lowes' 2013/2014 tax cards have now been printed and we are pleased to enclose your complimentary copy with this issue of the magazine.

To request additional copies, please telephone 0191 281 8811, or email: client@Lowes.co.uk

Our cover shot:
Stonehenge © Shutterstock

Make your money work
Best bank & building society unrestricted instant access accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Branch based	£1+	Virgin Money	Easy Access Saver	1.55%	Branch
Internet, phone & post based	£1+	Scottish Widows	Instant Saver Account	1.70%	www.scottishwidows.co.uk/bank

Sources: Providers' websites, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk 15 April 2013. All accounts subject to terms and conditions.

Measures of inflation
The average change in prices of goods and services over a 12 month period to March 2013

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
3.3%	2.8%

Source: Office for National Statistics

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.

Scam warning

IT SEEMS THAT FRAUDSTERS HAVE RENEWED THEIR attempts to trick people into giving away their personal details, including bank account numbers and credit card pin numbers.

Known as 'phishing' emails, often they purport to be official notifications from bodies such as HM Revenue and Customs (HMRC) and attempt to lure people into giving their personal and financial details.

One such scam we have seen in this office recently is entitled 'Tax Refund Notification'; it tells the recipient they are due a tax refund of several hundred pounds and asks them to complete a very well designed form which in turn asks for their financial details. The message then goes on to say that refunds may be delayed "for a variety of reasons" creating time between the fraudster receiving the details and the individual becoming suspicious.

HMRC advises that it never sends email messages requesting any financial or bank account details and it provides useful information at: **www.hmrc.gov.uk/security/advice.htm.**

If you are in any doubt about a communication, contact your tax office using the number on your annual tax form.

Absolute Return - What's in a name?

AS IT TURNS OUT IN THE INVESTMENT WORLD A NAME is everything, as several investment sectors have changed their names in the past 18 months.

In January 2012, the Investment Management Association, the trade body that is responsible for classifying the different sectors within which investment funds sit, renamed the Cautious, Balanced and Actively Managed fund sectors as they were felt to be too confusing for investors given that many funds within the sectors were not managed in a way that reflected those names. Research showed that investors focused on their percentage exposure to different asset classes. So the IMA renamed the sectors the Mixed Investment 20-60% Shares; Mixed Investment 40-85% Shares; and the Flexible Investment sectors respectively.

Now the IMA has renamed the "Absolute Return" sector because, again, it was felt it could mislead investors. Absolute Return funds are marketed to investors as lower-risk investments that aim to protect them from the worst swings in the stock market. Most try to achieve a return in any market conditions over a 12-month period using a variety of strategies, including short selling of stocks. From 1 June 2013 the sector will be known as the Targeted Absolute Return sector reflecting that investment returns are a target not a guarantee.

Long-term care

WE ALL HOPE WE'LL NEVER NEED IT BUT THE SIMPLE fact is that, whether for health or general care reasons, thousands of people every year enter a long-term care (LTC) arrangement.

It can be an emotive subject as the costs for care can be high, potentially it might require the selling of the family home, which in turn may affect a person's wishes regarding passing on money to their children and grandchildren. In addition, there has been much controversy around what local authorities should or will contribute to an individual's care bill and how much a person should expect to pay themselves for their care.

In February this year the Government announced its proposal to implement a long-term care policy that would cap an individual's long-term care costs at £75,000.

There has been much ill-informed comment about this proposal, which is far from clear-cut and a long way from becoming policy. However, a key point that is often overlooked in the commentary is that, even if it is implemented, the £75,000 figure only covers care costs and not food and accommodation, so not only must everyone pay out £75,000 before the cap applies but also the change is unlikely to benefit many people.

We go into the issues around long-term care in more detail in our centre pages (overleaf).

Meanwhile, I am indebted to a client who furnished me with the following radical tongue-in-cheek alternative proposal that I thought many of you would appreciate.

Exciting new LTC opportunity

You're a sick senior citizen and the government says they are going to sell your house to pay for your nursing care. So what do you do?

The new plan gives anyone 65 years or older a gun and 4 bullets. You are allowed to shoot four politicians.

Of course, this means you will be sent to prison… where you will get three meals a day, a roof over your head, central heating, air conditioning and all the health care you need!

Need new teeth? No problem. Need glasses? That's great. Need a new hip, knees, kidney, lungs or heart? They're all covered!

As an added bonus, your kids can come and visit you as often as they do now.

And who will be paying for all of this? It's the same government that just told you that they couldn't afford to pay for your nursing care.

And you can get rid of 4 politicians while you are at it.

Plus, because you are a prisoner you don't have to pay income tax.

Is this a great country or what?

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.

Long Term Care Update

Recent government announcements regarding long-term care costs have resulted in controversy and ill-informed comment. Here we provide an update for you.

LONG-TERM CARE IS A HIGHLY emotional subject and not surprisingly, as it often involves the deterioration in health of a loved one, the ongoing care and welfare of that person and, increasingly, the need to fund that care from private resources.

To try to establish policy around long term care (LTC) in the UK, back in July 2010 the Government set up an independent body tasked with reviewing the funding system for care and support in England. This Commission was chaired by Andrew Dilnot, and reported back in July 2011.

One of the main recommendations from the report was that a cap be imposed on the cost of long-term care, so that people knew where they stood and a lot of the anxiety around care costs could be relieved. The report suggested that the cap be set between £25,000 and £50,000 - with £35,000 the recommended figure - beyond which people would be eligible for state support.

However, when the Government published its plans in February this year, it revealed that the cap it intends to implement from 2017 is £75,000 (officials claimed this was equivalent to circa £60,000 at 2010/2011 prices). The Government also announced a large rise in the asset threshold beneath which people will receive means tested Government support for care bills from £23,250 to £123,000 – again to be introduced in 2017.

These latest plans amount to the government paying £1bn-a-year to limit the cost of care for the elderly and it received general political support as a means of tackling the ageing society in which we live.

Despite the political reaction to the plans, as you might expect, the cost of long-term care for the elderly has many facets to it and the vast majority of individuals will still need to think about how they plan to afford it, because with this policy the Government is essentially saying it wants individuals to take a joint responsibility for their own care costs.

Often with long-term care arrangements, the individuals and their families are entering an area about which they know very little, so when it happens to them, often they are so involved in the practicalities with which they must deal that although they realise there are costs involved, the last thing on their minds is the important question around the financial commitment and whether they can deal with it.

> *Care homes will continue to be expensive places*

The most obvious shortcoming in the new proposals is that the majority of people will still not receive any assistance from the State. Industry figures show that less than a fifth of people who face care costs now, pay in excess of £75,000, meaning a large proportion of individuals will still have to pay their entire bill. And the average elderly person will not really be any better off as they are likely to be below the means-testing threshold.

Another limiting factor of the new measure is that individuals are restricted in their options. The cap applies only to the 'personal social care' element and is subject to both eligibility criteria and the prevailing local authority rate. The cap will not cover general living expenses (estimated at £7,000-£10,000 a year), or for any costs incurred above the rate paid by the local authority. Also, individuals wanting to move into a better class of care home or pay extra for the best help will have to personally cover the expense.

The cap placed on costs by the Government is not a complete cap on all costs and it does not benefit an individual until they have actually spent sufficient on personal social care up to the cap.

There may also be issues around relocation if elderly people are forced to move out of their preferred area in order to stay within the provisions of the scheme.

Care homes will continue to be expensive places - setting aside the actual cost of the care itself, there are accommodation bills on top of that, including cost of food, utility and other bills and renting the room. Furthermore, while local councils will consider costs for LTC arising from health reasons, this more often excludes infirmity through old age.

As can be seen, the political spin aside, this is a complex area. It is important that families give proper consideration to the possibility that a member of their family may require Long Term Care. Ill health can strike at any time and plans should be put in place to deal with the eventuality.

Funding Long-Term Care
The Options

The £75,000 cap is not a cap on all costs and the individual will have to meet their expenses from their own resources until the cap is reached. Even then, it doesn't cover costs such as general living expenses.

Commonly, people will have state and private pension income and/or annuity payments that can help pay for costs. Other means used to cover care costs include:

Saving and investing

The most sensible option is to plan ahead and save a proportion of your accumulated wealth over the years in anticipation you may have to pay for long-term care.

The effect of compound interest means that small amounts saved over the years can grow into useful sums over time. Tax wrappers such as ISAs can also ensure the money makes best use of tax allowances and exemptions.

Selling a home

This can be one of the emotive scenarios, as many people would prefer to receive care in their homes if possible and people hope their home will be an inheritance for their children or grand children. It is a scenario the government says it wants to be able to avoid but ultimately, unless there are more liquid assets held elsewhere it could be the only way.

Equity release

This is normally an option when the only asset a person has is their home. It allows people to borrow a proportion of the value of the property, which is paid back with interest when they die or sell their home. This enables the owner to keep their home, which gives them greater flexibility if they are in and out of care, and any released equity which remains unspent when the owner dies goes to their inheritors.

Deferred payment

Sometimes a local authority may pay for care home fees but defer recovering them until the house is sold. This can allow for the house to be rented out, the income helping to pay for fees, and the remainder paid when the individual dies.

However, this option is only available if the resident has insufficient income to pay for residential care and, currently, has savings of less than £23,250 excluding the value of the property. Also, it is up to the local authority whether an individual is approved for the scheme, and it may affect any benefit entitlements they are eligible to claim.

Insurance policy

Specialist insurance policies exist that for a lump sum, which may be paid before or after entering care, will pay out income directly to the care provider to meet care home fees.

These are like pension annuities in that they are guaranteed to provide income for life. Death benefits are more expensive and restrictive but there are income tax advantages to using these insurance policies.

Paying from a pension

Personal and workplace pensions often allow people to take up to 25% of a pension pot in tax-free cash lump sum from the age of 55. This could be reinvested in anticipation of future care needs. Also, anyone seriously ill may be able to take 100% of their pension in cash if an assessment confirms that they are expected to die within 12 months.

Everyone's circumstances will be different and as can be seen, there are many avenues to consider. Taking full and considered financial advice is essential before taking any course of action.

■ ***If you would like to discuss your Long Term Care arrangements, please contact your usual Lowes Consultant or this office on 0191 281 8811.***

IHT and LTC

IN OUR SERIES in which Lowes Consultants provide some top tips for clients, we follow the theme of our main article and look at inheritance tax (IHT) issues in respect of long-term care (LTC). Rod Molyneux gives his view

The nil rate band for inheritance tax (IHT) was set to rise to £329,000 in April for every individual, but George Osborne announced the IHT rate would be frozen at £325,000 until 2019. Where assets are passed on solely to a spouse the IHT allowance passes across to that person and so doubles to £650,000. Everything above that is taxed at 40%.

Prudent savers may have put aside a considerable amount of money in cash or investments to pay for long-term care should it be needed. Yet industry statistics show the average life expectancy for those entering care homes is 2.5 to 7 years.

For many people who own their own home, their accumulated wealth not only means they are too wealthy for support but on their death the tax man gets 40% of the remainder.

Paying for LTC can go hand-in-hand with an IHT liability. There are a number of ways people can offset potential IHT costs in advance of the need for long-term care. Very simply, these include:

- Gifts out of normal expenditure, and making use of other tax exemptions.
- Gift or transfer wealth – no ownership must be retained and the gift only becomes entirely free of IHT after 7 years – taper relief applies each year.
- Trusts can allow the beneficiary to receive capital growth IHT free. They can be complex and expert advice is recommended.
- Business Property Relief - this can allow transfer of assets at 100% IHT relief in 2 years.

The key and first step to all of this is to make a Will.

■ ***For more information contact your usual Lowes Consultant or call this office on 0191 281 2811.***

Budget Review

What affect might the 2013 Budget have on Lowes clients? We look at some of the key points.

UK Growth and Tax

While Chancellor George Osborne's Budget 2103 speech began by identifying the poorer than expected performance of the UK economy – national debt is to peak in 2017/2018, a year later than the last forecast, and UK growth in 2013 is predicted to be half the official forecast in December 2012 i.e. 0.6% – not everything was doom and gloom, but reading between the lines was also essential.

Higher rate tax

The Chancellor announced the Government would be bringing forward the date for raising the personal tax allowance threshold to £10,000 to April 2014, a year earlier than planned. For anyone with an annual income of less than £10,000 this is good news, but what the Chancellor did not highlight was that more people have been included in the 40% tax bracket.

While in 2009/2010 the personal allowance was £6,475 and basic rate tax was payable on the first £37,400 of taxable income, in 2014 the 40% rate will start at £32,300. This will scoop a lot more people into the higher rate tax bracket (around 400,000). This helps raise more revenue for the Exchequer but keeps incomes under pressure. (The new personal allowance rates can be found in the Lowes Tax Tables card available with this magazine.)

Autumn Statement confirmations

Many of the tax changes that came into effect on 6 April 2013, were announced in the April 2012 Budget or in the Autumn Statement in November. However they are worth outlining here:

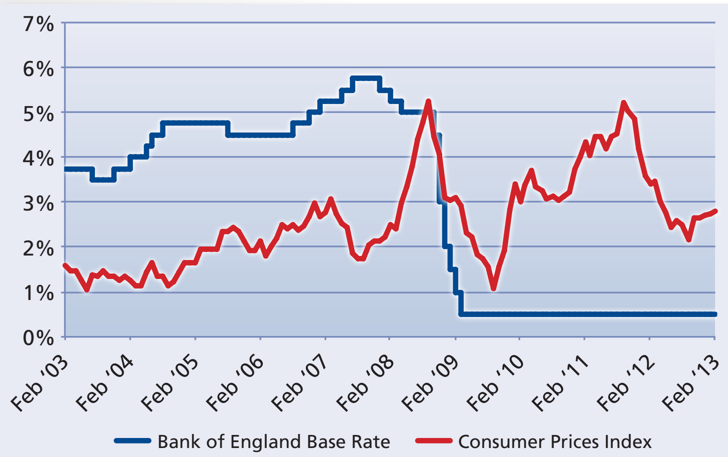
- Additional Income Tax on incomes over £150,000 reduces from 50% to 45%.
- Age related allowances for the over 65s will be frozen for anyone over 65 and scrapped for anyone who turns 65 after 5 April 2013. A petition of 100,000 signatures against this may mean further consultation by the Government, we'll have to wait and see.
- Inheritance tax threshold is now frozen at £325,000 per individual until 2019.
- The amount exempt from CGT, outside a tax wrapper, now £10,700, will rise by 1% in 2014 and again in 2015.
- ISA allowance rose from £11,280 to £11,520, with cash ISAs rising to £5,760.
- The maximum amount a person can put into their pension and receive tax relief falls to £40,000 from £50,000 from April 2014. Anyone looking to maximise this allowance should do so – potentially carry forward of previous unused pension tax allowances can be utilised too. A little-known fact is that the £40,000 limit may apply if a pension's 'input period' starts on or after 6 April 2013.

Income Drawdown changes

When in April 2011 the Government lowered the maximum income level that could be withdrawn each year from a pension in 'capped drawdown' to 100% of the rate calculated by the Government Actuary's Department (GAD), the reduction, coupled with plummeting gilt yields, dramatically reduced the income available to savers.

Responding to that, in the Autumn statement, the Chancellor indicated the Government would be reversing the decision, putting the level back to 120% for pension years starting after 26 March 2013.

Impact on cash savers



The UK Budget 2013 spelled out potentially more bad news for people with savings in cash ISAs and bank and building society savings accounts. The Chancellor confirmed the target rate on inflation would remain at 2% (although currently it is above target), and that the Government is considering extending the Funding for Lending programme. The latter has reduced banks' demand for deposits from ordinary savers and investors, which means banks have little incentive to increase their savings interest rates, which could stay at low levels for years to come.

Deposit Accounts and Cash ISAs have been outstripped by inflation for some time (see chart above) and there are no signs that this is going to change, meaning that over time the spending power of money in a savings account will diminish. As we have highlighted in earlier magazines, banks and building societies will offer bonus paying accounts which pay a good headline rate for a year and then drop to offer a poor rate of return, hoping savers won't notice and stay in accounts paying very small amounts of interest.

This emphasises the need for people to take proper financial advice to help their wealth grow rather than diminish and also the need to understand that to have a chance of achieving better than inflation returns it may be necessary to take a little more risk with their cash.

Change to Cofunds ownership

MANY OF YOU WILL HAVE YOUR INVESTMENTS THROUGH Lowes administered by Cofunds, the largest fund platform in the UK. Cofunds provides an efficient means to maintain and monitor a portfolio of investments without having to deal with a myriad of individual fund houses, as well as providing consolidated reports on investments when needed.

The platform was set up in 2001 by a number of fund companies – including Jupiter Asset Management and Threadneedle Investments – with Legal and General subsequently aquiring 25%. L&G has now negotiated to buy the remaining 75% from the other shareholders.

We do not believe the change of ownership will make any difference to you as clients, as the platform's purpose and function will remain the same. Indeed, we envisage the platform benefiting from greater investment in the years to come, as well as L&G's financial services knowledge and know-how.

Welcome back Marilyn

We are pleased to be able to tell you that Marilyn Clark, secretary to Rod Molyneux, has returned to work after a long period of illness.

Marilyn is working on a part-time basis and we are delighted to have her back. During her time away she received many messages from well wishers among our clients and through the magazine she would like to thank all of you for your kind words and support.

Doug's digest

Is there a bond bubble?

IN THE LAST FEW MONTHS I HAVE BEEN asked many times "Is there a bond bubble, and is it about to burst?" This is often following on from dramatic headlines in financial publications. Whilst I understand the reasoning behind this argument, I don't think the traditional scenario applies, at least not at present, and, provided we are talking only about corporate bonds and not Gilts, then my very short answer to this question is "no".

Historically, quantitative easing, the creation of money by the central bank and pumping it into the system, would have led to inflation. In very simple terms, as there was more money around it would make consumers happier to spend what they had, and this would lead to increasing prices as demand increased. When inflation starts to take hold, the primary tool used by the central banks to keep it in check is to raise interest rates. This means that our loan repayments, our mortgages etc. become more expensive to repay, and leads to people tightening their belts and spending less.

As interest rates rise, however, people demand a higher yield from their investments to justify the extra risk they are taking. Why invest in bonds or equities where your capital is at risk, if you can get a similar return by putting your money in the bank or building society, where at least part of it is protected under the FSCS scheme? The income paid out from individual corporate bonds is fixed, so if the yield is to go higher, the price must fall, and this is why traditionally quantitative easing has led to a fall in the price of corporate bonds.

At present, however, the extra money pumped into the system by quantitative easing is not reaching the consumer, which is where it needs to be to fuel inflation. The banks to help improve their capital balances, as required by the regulators, have hoarded it. The cynical amongst us may say that it has been a way of the government and the Bank of England re-financing the banks by the back door.

Inflation is starting to creep up, but recent inflation increases have been caused by one off events, such as increasing energy costs, not by an increase in consumer spending. Inflation will eventually come back into the economy as a result of all the extra money that has been created, but I believe it will not be for a little while yet, and even when it does it will suit the governments and the central banks as it helps reduce the real value of their debts. The Federal Reserve in the United States has already gone on record saying it has no intention of increasing interest rates in the next few years, and the Bank of England is following a similar line. The incoming governor of the Bank of England, Mark Carney, has already signalled that he believes the Bank of England should target economic growth as well as inflation, which suggests he feels that interest rates should be kept lower for longer to help stimulate the economy at the expense of inflation.

Until interest rates start to rise, I do not believe that bond prices will suffer the dramatic falls predicted but, as with all asset classes, funds investing in corporate bonds will suffer periods of falling prices. We would expect other asset classes to rise in value as a result of the market conditions causing this fall. This is why we recommend utilising a broad mix of assets in investment portfolios.

2013 Client Satisfaction Survey

FOR OVER TWO DECADES NOW WE HAVE BEEN conducting regular client satisfaction surveys to help measure our performance and identify how we may improve our service to you as clients.

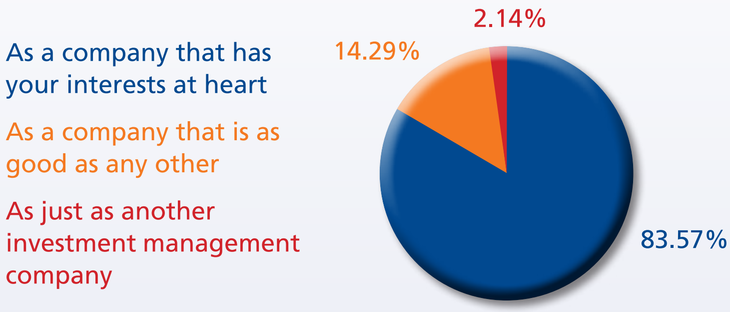
The response rate for the 2013 survey was very high and we would like to offer our very sincere thanks to all those who took the time to give us their feedback. We are extremely pleased to note that against what has been a somewhat challenging economic backdrop, the survey results show that, in general, our clients feel we have maintained the level and quality of service that we strive for.

We would also like to offer our sincere thanks to all those who took the time to add positive feedback and comments as well as those that added suggestions as to how we can improve the service we provide. These suggestions are being considered carefully and we expect to make improvements to certain aspects of our business over the coming months.

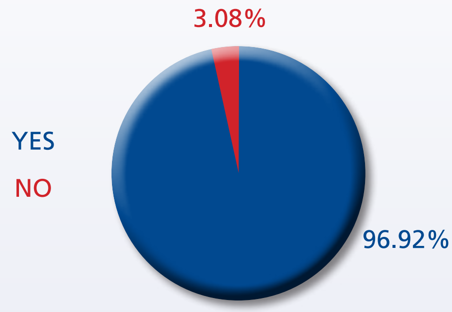
One of the areas that attracted a not inconsiderable number of comments was that of client service and contact. Whilst more than 95% of respondents rated Lowes as either 'Very Good' or 'Good' in these areas, a number of the remainder indicated that they would like more contact or had not been offered an annual review. We monitor each client's portfolio on an on-going basis and in some years we may have cause to work with you on several occasions but in other years the requirements could be much less. Our objective is to offer every client the opportunity for a review at least once a year. If you haven't had any dealings with your Consultant for a period of twelve months and do not receive an invitation for a review consultation there has been a breakdown somewhere in the system for which we apologise. But please, never hesitate to give us a call – as you can see from the summary of the 2013 survey results below, if nothing else, we're a friendly and approachable lot.

■ ***The full survey results can be found on our website www.Lowes.co.uk***

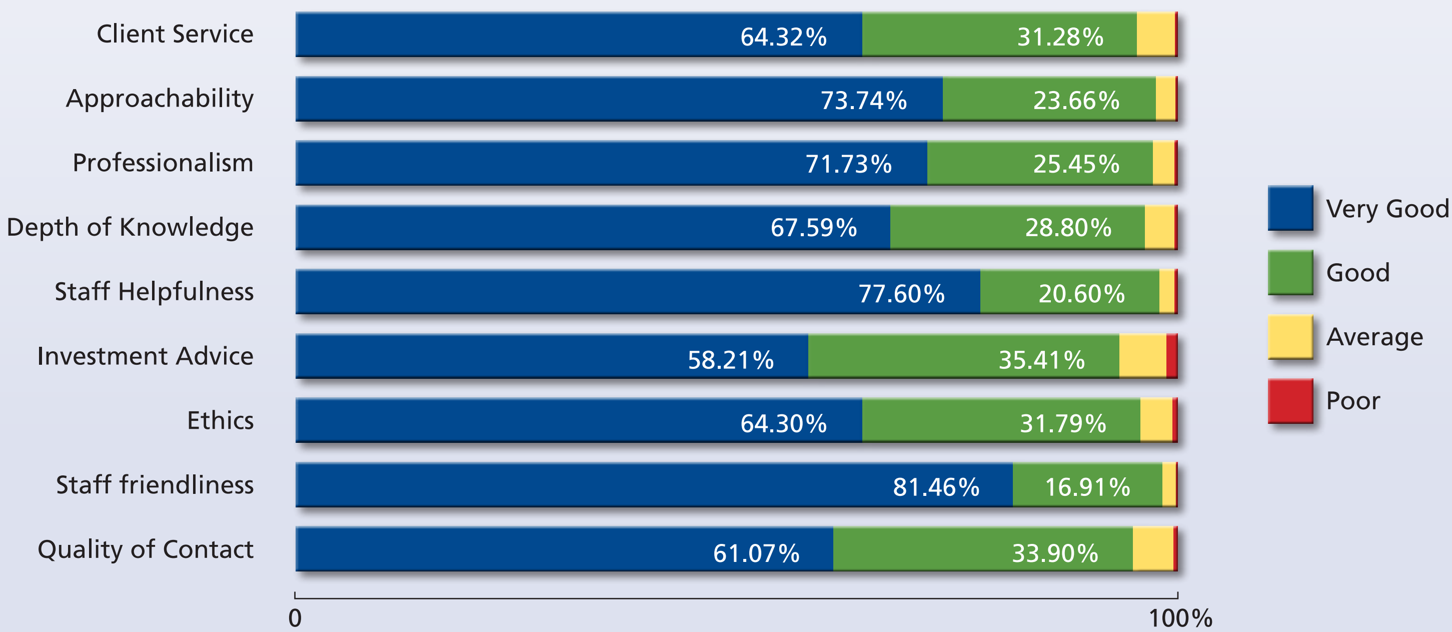
How would you describe Lowes Financial Management to a friend?



Do you feel that the service we provide lives up to the statement *"Where personal finances are cared for personally"*?



How would you rate Lowes Financial Management on the following?



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.