More changes to the pension regime

Quarter 4
2010

The newsletter is a little late in coming out this quarter, as we have been waiting for news with regards to the planned changes to pension regime for the future. The coalition has several changes in the pipeline which are outlined below, broad details of which have been released over recent weeks. Some of the finer points in some areas have still not been released, and therefore we will bring you a further update early in the New Year.

The changes have particular impact for persons earning over £50,000, persons using or considering Income Drawdown in retirement, and those at or approaching age 75.....

Comprehensive Spending Review limits pension contributions

The annual allowance for pension contributions which can benefit from tax relief will be reduced from £255,000 to £50,000 from April 2011. To benefit from tax relief on a contribution for the full £50,000, a client will still be required to have taxable income at or above this level and therefore anyone earning over £50,000 has in effect seen their maximum contribution levels significantly reduced.

This is good news for higher earners (£130,000 annual income and above) as in essence this £50,000 level is an increase from the £20,000 special annual allowance for these persons that has been in force since April 2009 Tax relief up to the £50,000 will continue to be available at the highest marginal rate (i.e. potentially up to 50%).

Anyone currently contributing above or around £50,000 a year should seek advice as soon as possible to ensure their arrangements are adapted for the new regime.

Lifetime Allowance is also changing

The government also announced a reduction in the Lifetime Allowance (against which all non-state pension benefits are tested) from £1.8m to £1.5m. This is planned to come into force a year later in April 2012.

As many people will already have accrued pension benefits above the lower £1.5m level, the government have intimated that some form of protection will be available to these persons to ensure that they do not face an immediate penalty come April 2012. No further details are available on this as yet, although we anticipate that the protection could potentially require the cessation of any future pension contributions or benefit accruals.

Again, it is important that anyone who may be affected by this consults with an adviser over the coming year. Please bear in mind that all pensions are valued against this limit, including ....

...salary arrangements, which currently are valued using a factor of 20 times the final salary pension (i.e. a £40,000 final salary pension is valued at £800,000 against the Lifetime Allowance).

State pension age increasing earlier

The Spending Review also announced that the state pension age for both men and women will be rising to 66 in 2020 (previously planned for 2024). This is four years earlier than was previously planned, but not as early as 2016 as some people had been expecting.

Increases to age 67 and 68 (in 2034 and 2044) were already planned, and it is unclear as yet whether these will also be brought forward by 4 (or more years).

We expect further change in the area of state pensions, particularly around the level of payments. Some indication has been given that the current payment structure (both basic and earnings related elements with some means testing to top these up) may be replaced with a simpler single level of state pension for all, but no details have been provided as yet. As the state pension forms a valuable part of clients' overall retirement income, we will keep you posted with any further developments.

Drawdown and post-age 75 changes

Following on from the temporary 2 year extension on pension death benefit rules (from 75 to 77 announced in the June budget), the government has released draft guidelines of how they expect the longer-term "at-retirement" landscape to look. Changes in this area are due to be implemented from April 2011, however final details are only expected to be released in December, and therefore we will focus heavily on these in our New Year newsletter. In the meantime, a summary of the proposals is below:

- **Changes to death benefits** – currently "crystallised" pension monies in drawdown are subject to a 35% tax charge if paid out as a lump sum on death before age 75, whereas charges after age 75 are potentially up to 82%. A single rate of 55% regardless of age has been proposed.
- **Introduction of new "flexible" drawdown** - For investors using drawdown as their main source of retirement income the rules will remain similar to those in existence now with a restricted maximum income. However for investors who can prove they have a certain (currently unknown) level of secure pension income from other sources, there will potentially be a more flexible form of drawdown available which allows the investor to take unlimited withdrawals from the fund subject to income tax.

What's going on?

Market Commentary – End Quarter 3, 2010

The volatile conditions in stock markets continued through the 3rd quarter of 2010, however unlike the preceding period, the swing was strongly positive, recapturing many of the losses of the previous 3 months. Such volatility has been a theme for some time now, and is expected to continue as investors react to the changing and challenging economic backdrop. However, such volatility does create opportunities and we are working to try and create portfolios that can benefit from these conditions. The UK RPI figure of 4.23% over the last year (to end of September) shows why achieving some sort of return on investment is important in order that accrued savings can try and retain their "real" value.

	3 Months	1 Year
FTSE 100 TR	13.76	11.84
FTSE 250 Mid TR	13.20	18.21
FTSE A British Govt All Stocks TR	3.60	7.25
FTSE All Share TR	13.63	12.49
FTSE All Small (X It) TR	11.26	0.18
FTSE Europe ex UK TR GBP	13.58	1.63
FTSE World TR GBP	8.71	9.69
IPD UK All Property Monthly TR	2.21	22.59
LIBOR GBP 1 Month	0.11	0.43
UK Retail Price Index	0.13	4.23

Source: Lipper Hindsight, bid-bid, net income reinvested, to 30/09/10

Developed economies, such as the US and Europe still face many issues. Debt levels have to be reduced to more sustainable levels, over-valued assets (e.g. houses) have to be allowed to find a suitable level of value and associated losses need to be cleansed from the system. The 'balance sheet recession' in these nations will take time to repair and only then can we look forward to domestic demand returning to previous levels. However, this is not to say that stock markets in these nations will necessarily perform badly, as many companies now are globally diversified and can benefit from exposure to growth elsewhere.

The emerging world, most notably Asian and certain Latin American countries, has continued to develop at great pace. Their vast and young populations want a higher standard of living; they are coming from a lower base while enjoying all the benefits of modern technology, but avoiding the legacy costs of its development. In contrast to the developed world, these economies have low levels of consumer debt, many having suffered a 'cleansing process' within living memory.

Macro economic developments have dominated investment returns for an extended period; it is difficult to see that situation ending until some of the structural issues afflicting Western economies are finally addressed.

We have had plenty of stimulus and bailouts but they did little to address the main imbalances, namely that the Western world has increasingly lived beyond its means for generations. Now it is payback time. Investing in the emerging world is likely to lead to a generation of healthy returns albeit with a fair degree of investment risk, and therefore exposure is given carefully and strategically to these areas in clients' portfolios.

Equity Release Specialists

In response to queries from some clients, we have been examining the "equity release" market. Equity Release is a growing area for persons looking to release part of the value of their homes (and other properties) to help provide capital and income towards retirement, the cost of care, or any other purpose.

The equity release market has developed significantly in recent years and there are a now a variety of different products available for this purpose. Most products now come with "no negative equity" guarantees and guaranteed lifetime residency meaning that clients have peace of mind that these plans will not have unpleasant consequences later in life.

Equity Release advice is a specialist area and advisers need to be aware of the changing and developing marketplace on an ongoing basis. As it is not an area in which we see a huge demand at Stan Gaskin Ltd at present, we have decided to partner with a specialist **independent** equity release specialist advisory company in this area for any clients who do require advice.

We have conducted a good deal of research and are happy to recommend this firm as they are independent (unlike many advertised equity release firms) and share our beliefs in customer care, service and professionalism.

They offer an initial non-chargeable home visit for anyone wishing to consider or simply discuss Equity Release options (which we can also attend jointly), so if you or anyone you know would like to explore this further, please contact us in the first instance.

Big Thanks

As you may recall, Henry cycled to Paris for charity back in August. Whilst the legs have now stopped aching (and the hair has grown back!), the memories of the trip will last for a long time. Best of all, the team surpassed their fundraising target and ended up raising in excess of £12,000 for the Royal Marsden Cancer Campaign.

Therefore the team wishes to pass on massive thanks to everyone who donated and contributed to the fundraising effort. Rumours of a Tour de France next year are definitely unfounded!