ASSET Advantage

Your quarterly newsletter from ASSET Investment Management Ltd

wealth management specialists

Autumn/Winter 2014

Changes to Pension Rules - a VERY brief synopsis!

In the last Budget the Chancellor announced that "nobody would be forced to buy an annuity" again. This took the whole pension industry by surprise and some annuity providers effectively closed for business.

The changes to how income can be taken from a pension plan will not come into place until April 2015 and will not in any event include Final Salary schemes. However, from then an individual will be able to take his or her whole "pot", the first 25% of which will be free of tax and the remainder taxed at their marginal rate.

Quite how this will be accomplished was not thought through and providers are still struggling to develop suitable products, but it was a solution to the annuity fund "dying" with the member.

What's Changing

Age at death will still determine how pension death benefits are treated. The age 75 threshold remains, but with some very welcome amendments.
The pension fund can be taken tax free, at any time, whether in instalments, or as a one-off lump sum. This will apply to all funds which means those in drawdown or a fixed term annuity will see their potential tax charge on death cut from 55% to zero overnight. Using the fund to provide beneficiaries with a sustainable stream of income allows it to potentially grow tax free, while remaining outside their estate for Inheritance Tax.

Death after 75

Defined Contribution pension savers will be able to nominate who 'inherits' their remaining pension fund. This fund can then be taken under the new pension flexibility and will be taxed at the beneficiary's marginal rate as they draw income from it. Alternatively, they'll be able to take it as a lump sum less a 45% tax charge (this will become their marginal rate from 2016/17)

Drawing an income.

The new rules will mean that beneficiaries other than dependants may now benefit from the remaining fund, without suffering a 55% penalty.

Summary

This puts pensions at the heart of intergenerational wealth transfer planning.

Business Risk Awareness Workshops (BRAW)

A few years ago, the Financial Services Authority (FSA) started an initiative called "Treating Customers Fairly". We though we always had, but nonetheless put together a whole document and raft of principles - at a face to face meeting with them in 2010 they confirmed that ***"you are treating your customers fairly".***

The Financial Conduct Authority (FCA) have now superseded the FSA and so have launched yet another initiative called BRAW, necessitating more hours of work. However, the good news is that the FCA say:- ***"You appear to be appropriately identifying and managing risks to your business"***

The last few months have seen markets startled by events in Ukraine, Ebola, ISIS - to name but a few.

A few years ago markets were startled by the Euro crisis and bank bailouts.

However, over time, markets readjust to ongoing conditions and history shows that asset backed investments outperform cash - but there will always be volatility.

If you have any requests for articles or information, or want this to be sent to any friends and family, then please let us know.

Our Services

We are able to offer qualified advice in areas other than pure investment, such as:-

- Care Fee Planning
- Equity Release
- Mortgages
- Income Protection
- Life & Critical Illness cover
- Pension Planning
- Inheritance Tax Planning
- Wills and Estate Planning
- Lasting Powers of Attorney

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Fund Factsheets - reviews

We have always printed off factsheets for each fund that you hold. We will no longer do this and instead only provide them for funds which are causing some concern or which merit comment owing to short term underperformance.

This will save paper and ink and go some way to establishing our "green" credentials!

With an online system such as Transact, the vast majority of our clients have internet access and you can log in to your own portfolio at any time and view the factsheets relevant to your holdings, so having them printed once or twice a year does seem superfluous.

We will, however, hold pdf copies of all funds each month so they are available on request and can be e-mailed or printed and posted.

Reviews

Our business continues to grow, thanks in no small part to those of our clients who have **recommended** us to friends and family. This brings its own pressures and so we have looked again at our review process, consulted with the regulator, the Financial Conduct Authority (FCA) and propose to streamline the procedure for the benefit of both our clients and ourselves.

Frequency

We had moved towards doing all reviews in March and September; those having bi-annual reviews being seen then and those with annual reviews in either month.

Kevin sometimes feels that it would be beneficial if he could spend more time with some clients at reviews and this can only be achieved if there aren't so many to be seen in a short space of time.

We will therefore start to spread the reviews out over every month – people will still receive one or two review per year, but some will be in different months to March and/or September.

Fund Switching

One of the drawbacks of a system where someone is seen only 6 monthly or 12 monthly, irrespective of the month, is that of fund switching. If we have reviewed a fund and decided that it needs to be changed it could be another 11 months before a client is recommendation is made, whereas had the event taken place in the month before the client's review the switch would be recommended the following month. This isn't fair or logical, but we were unable to effect such movements on behalf of the client owing to the regulator's rules on "Discretionary" or "Advisory" services.

We have, however, been able to gain clarification of this from the FCA. Providing each client has agreed in advance that we may make a switch (and we will write to each client informing them of what we have done and why) then we can accept a default position of agreement rather than needing to send a separate letter and get a signed reply each time.

We will be sending a letter to everyone together with an agreement for their signature so that we can make this improvement to our services.