

## R T M Financial Services

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Your independent window on financial issues

## Darling's budget for the young, the old and the planet ...

*A neutral budget was not only to be expected but may even be welcomed; few headline-grabbing, but meaningless, initiatives.*



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On the other hand, some positives such as helping more children out of poverty, increasing the winter fuel allowance and using the tax system to encourage greener living, were balanced by missed opportunities to help many more.

In particular, the Chancellor failed to aid the housing market by overhauling the stamp duty regime; or even simply increasing the thresholds at which increased rates apply. He could have dramatically eased the homes market simply by altering the way stamp duty applies by introducing 'top slicing', where the rates only apply *above* each threshold, rather than from the 'ground up'.

He could also have helped encourage greater savings by making a significant increase to the ISA limits, rather than simply adding £200, of which up to half can be in cash.

Rather more important to investors is his failure to reverse the situation, introduced some years ago by Gordon Brown, whereby ISAs and pension funds are unable to recover the tax deducted from dividends paid by UK companies.

Similarly, although an increase in the EIS

investment limit from £400,000 to £500,000 is welcome, as will be the consultation on new proposals to limit the amount of regulation that can be imposed by Whitehall, SMEs gain no relief from the increased corporation tax rate, which is now higher than the basic rate of tax.

### The economy

Despite concerns amongst investors over the effects of the credit crunch on equity markets, the Chancellor claimed that the economy is in good shape, with inflation set to fall back below the 2% CPI target.

While he also quietly downgraded his forecast for economic growth to 1.75%/2.25% for 2008/9—increasing by about half a percent the following year—this compares favourably with some other leading economies. It will, however, affect his revenue generating capacity and borrowing will rise to £43 billion next year.

### Investments

The overall message that can be drawn from the budget for investors is probably positive. There are no major initiatives that are likely to make things worse and some signs that concerted action by the world's central banks will help to ease credit for lenders, making it less difficult for them to lend to those with poor credit histories. This is good for everyone, since a squeeze at the bottom end of the housing ladder slows the housing market generally.

Abandoning the deeply unpopular—and largely useless—Home Information Packs would also help the flow of new property onto the market.

The overall message for investors could well be: 'steady as she goes'. There is no reason to think that markets will not recover over the longer term; selling at the bottom is never a good idea.

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# The importance of Independent Advice



***You already appreciate the value of independent financial advice; a recent initiative reinforces its importance.***

Investors and those seeking advice on protection and mortgages are accustomed to consulting Independent Financial Advisers, but recent research for the *Association of Independent Financial Advisers (AIFA)* suggests that IFAs could also help to cut credit card debts amongst younger people and lower earners.

It is also suggested that middle income groups could benefit from independent financial advice in order to ensure that they have adequate investment, protection and pension provision.

This news comes as AIFA responds to initiatives by the regulators aimed at ensuring that independent financial advisers are able to demonstrate increasing levels of professionalism and “treating customers fairly”. This last initiative is intended to move regulation to a more principles-based approach, rather than the current prescriptive one, which frequently obscures rather than clarifies.

We are firmly committed to the principles of treating our clients fairly and this includes keeping you up to date with developments in financial services through the pages of this newsletter.

The importance of independent financial advice is also reinforced by concerns that consumers, turning to the internet for their financial needs, could easily find themselves getting into difficulties if they fail to take individual advice, based on what they learn on the web.

Some sources of information—perhaps all—have their own agenda, whether to sell space to companies who advertise on their sites, or simply to promote their own viewpoint.

IFAs, on the other hand, are responsible only to their clients and are therefore able to place their interests at the very heart of their advice. We are able to take time to research your individual needs and priorities; websites can only talk in generalities.

Our advice is based on thorough research of your current position, your attitude towards risk, your existing financial commitments and your financial goals and needs that we identify. We then take time to research the options available to you, ensuring that the recommendations we make meet your requirements as closely as possible.

We are then able to proceed to put in place agreed plans, often saving you considerable time and effort, as well as to ensure that your instructions have been correctly interpreted by service and product

suppliers. And unlike websites, we are covered by Professional Indemnity insurance.

But our service does not stop there. We are committed over the long term (subject to your agreement) regularly to review your arrangements in order to ensure that they continue to meet your needs as closely as possible. This can include ensuring that protection plans offer the right level of cover, as well as looking at the balance of your investments to ensure that they reflect your goals and risk profile.

Independent financial advice is about you—not a vague “consumer”.

## Planning for your longest holiday ...

***There are two critical components of planning for retirement: making sure that you have an adequate fund in the first place; and using it in the most appropriate way.***

According to recent data from the Association of British Insurers (ABI), almost one third of those currently in work save nothing towards a pension. A further one in seven do not save enough; in fact fewer than half of all those at work currently save enough towards their retirement.

The ‘shortfall’ identified by the ABI is based on research indicating that while roughly four out of ten people want to have a retirement income of between a half and three quarters of their current level of income to retire in comfort, only a quarter expected to do so, based on current saving levels. Yet more than half of all respondents said they expect their pension (including state benefits) to be their main source of income in retirement. A third expect to rely on inheritance, property or their partner’s income in retirement.



Actually, the belief that even as much as 75% of ‘final earnings’ will prove an acceptable retirement income could be outdated. With people retiring in far better health than a generation ago, it is not just that people live longer, but that they expect to be more active in the early years of retirement and this creates the need for income.

If you have more leisure time, you could well spend more, not less, than before; so having a generous income to pay for all your leisure activities could be important. Not to mention the need to have spare income to help the next generation cope with the demands of modern life!

So planning for the largest fund you can is very important. But it is also vital to ensure that the fund you have built up while working

## News in brief

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So far this year, the FTSE has lost 11.8% of its value. However, seen in a longer term context (shares should never be viewed as a short term investment) the overall trend is encouraging.

Over 5 years, the FTSE100 is up 73%, so there is scope for optimism.



The price of Brent crude 1-month futures has risen by more than 12% since the start of 2008.

Despite increasing worldwide demand, particularly from the new economies, there are suspicions that some of the price hikes have been down to speculators.



Depending on whether you follow the Halifax or Nationwide house price indices, prices fell by either 0.3% or 0.5% during February.

According to Halifax the annual price rise is now 4.2%, while Nationwide shows a more modest 2.7%.



Since the start of 2008, the value of sterling has risen very slightly after falling back during the start of the year.

The currency's continued strength is largely down to our comparatively high interest rates, which make investing here attractive—but hurts exporters.

produces the best possible income for you later on.

But this may *not* mean the largest immediate annuity you can find; after all, many people today make a gradual transition from working to retirement. As a result, you may wish to draw a smaller amount immediately, but then increase your income later on.

You can achieve maximum flexibility by using what is called an 'unsecured pension', commonly known as drawdown. This enables you to take up to 25% of the fund immediately as tax free cash and then to draw an income directly from the fund. Your income can be anything from nothing at all, up to 120% of the annuity that a single person of your age and gender could purchase, based on rates issued by the Government Actuary's Department.

This can last anything from age 50 (rising to 55 in 2010) right up to age 74. Beyond that age, you must use an 'alternatively secured pension', which is also drawn directly from the pension fund, but with different limits. The treatment on death is also very different and you should ask us for details.

In many cases, it will be appropriate to purchase an annuity at some point between initial retirement and age 75. This will also require advice, since you can usually use what is called an 'open market option' to buy your annuity from a company other than the one with which you built up the fund.

Preparing for retirement is something that should be done as early as possible, giving your money as long as possible to grow in the tax favoured pension environment. There are, however, alternatives open to most investors and we can guide you through these.

## Managing personal debt

***According to figures issued by Credit Action, personal debt in the UK grew by £1 million every five minutes during 2007; we now owe more than £1,400 billion in the UK.***

To put these figures into context, the average household now owes £56,588, including mortgages—that is £29,684 for every adult in the country.

This is not necessarily a bad thing for the economy or even individuals. After all, the debt is incurred in spending on items that generate employment for others, whether we are buying goods or services. And even where spending is on imports, there is a global benefit in that third world countries are expanding their economies to

the extent that they will need to purchase the goods and services that we export to them.

Conversely, we should not assume that such "macro-economic" benefits are an excuse for a spendthrift culture. Increasing personal indebtedness can have potential adverse consequences for individuals and families; managing our own personal finances should therefore be a priority for everyone.



Borrowing can help us buy the things that we need, but nothing in life is free and interest can mount up, especially if repayments are not made on time. Ensuring that essential items are purchased only from savings is not always possible, but where borrowing is required, it makes sense to look for the lowest cost option—which is not always the easiest.

For example, making a purchase in a department store using their own card can look easy and attractive, especially if they are offering a discount for taking the card out in the first place. But the interest rate can be very high. Accepting the offer and then paying off the card immediately (and never using it again) can make considerable sense; you receive the discount but do not pay an exceptionally high interest rate.

Consolidating borrowings into secured loans, either with a bank or as part of your mortgage, can represent a major saving in interest rate, even with February's cut in base rate, which should reduce the cost of borrowing overall. However, since the loan is likely to be extended over a longer period, it is important to consider whether you are trading off an immediate saving for greater overall cost, as the lower rate is payable for many more years than the original borrowing. It is a matter of balance; clearly current expenditure needs to be managed, but not at the expense of long term financial security.

As so often, financial matters should be seen “as a whole” rather than in isolation. Saving and borrowing are really two sides of the same coin; what matters is to understand how each is affected by the other and how to manage their relationship. Borrow too much early on and the value of long term savings may be reduced.

It is also important to ensure that you have adequate insurance to repay your borrowings—or at the very least the interest—in the event of your death, illness or unemployment. However, buying cover from a credit card provider or bank is not always appropriate, because there are frequently exclusions that make the cover useless under certain circumstances for some people.

## Back page briefing:

# Don't get caught by the change in basic rate tax

## *The basic rate of tax changes on 6th April 2008 to 20p in the pound. Good news?*

Of course any reduction in tax rates is good, but in this case, the cut from 22p to 20p is accompanied by the complete removal of the 10p starting rate and an equalisation of the thresholds for tax and national insurance that could result in many people paying more than before.

At the same time, individual pension contributions will actually go up because they are paid net of basic rate tax.

If you are currently investing £390 a month into your pension, the actual value of your investment is £500 a month, because of the £110 added by HM Revenue and Customs, by way of the tax rebate.



From April 6th, your net contribution (if paid by direct debit) will rise to £400 a month, so that HMCR will only add £100 to your pension. On the other hand, higher rate taxpayers will be able to claim an

additional £100 tax relief rather than only £90 through the self assessment system, because the claim is for the difference between the basic and higher rate of tax, which will now be 20% instead of 18%.

If, however, you are paying your pension contributions by cheque or standing order *and do not increase your payment*, then the gross value will fall to £487.50, because HMRC will only add £97.50 each time.

This will also affect the amount that higher rate tax payers reclaim through self assessment, as the claim will be 20% of the reduced amount, or £97.50—more than the £90 reclaimed under the pre-April regime, but less than the £100 that would apply, if the basic contribution had been enhanced to reflect the change in basic rate tax relief.

This may not sound much, but over the years it will add up.

Employer contributions are not affected, because they are paid gross in any event.

## Warning about car theft

### *We have recently come across a car theft operation that could affect readers.*

Walking across the car park, unlocking your car and then getting inside should be the most natural thing in the world.

The problem is that carjackers have found a way of turning this into every motorist's nightmare. What they do is to place a piece of paper in the middle of the rear window, which you are unlikely to notice until you start to reverse out of the parking bay.

The natural reaction of any driver could well be to get out, leaving the engine idling (which is never a good idea in any event and could represent a motoring offence as well as potentially invalidating your car insurance). While you are removing the obstruction to your vision, carjackers could well leap out of nowhere and jump into the car, locking the doors and driving off.

The engine is already running, and you may also have left a wallet, purse, documents and other important possessions in the car. This activity is understood already to be in use in London and Manchester and could soon reach other parts of the country.

The simple rule must be never to leave the car while the engine is running—or even the keys in the ignition without the engine on.

If you find anything on your windscreen that obscures your vision, turn the engine off, remove your keys, make sure there is nobody suspicious about and lock the car. Only then should you clear any obstructions. If possible, it may be even better to leave the area and park safely before you remove the obstruction.

This publication represents our understanding of law and Inland Revenue practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Rules may vary for Scotland and Northern Ireland. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of land and buildings is generally a matter of a valuer's opinion rather than fact. The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not necessarily a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

Your home may be repossessed if you do not keep up repayments on your mortgage. Loans are subject to status and written details are available on request. Always seek independent advice from a qualified financial adviser. Think carefully before securing other debts against your home. Fees for mortgage advice maybe charged and for details of these please contact us. The Financial Services Authority does not regulate all the activities undertaken by the company, including taxation advice and overseas mortgages.