



Crystal Wealth Management

review

AUTUMN 2014

The trials of economic forecasting

The Bank of England is finding forecasting difficult. Take the question: when will UK interest rates rise?

It looks a deceptively easy question, but it has caused some difficulties for Mark Carney, Governor of the Bank of England and one of the people who sets interest rates. Shortly after he took up the role last summer, Mr Carney introduced 'forward guidance' to give businesses and individuals a steer on when the Bank would start to consider a rate increase. In August 2013, Mr Carney stated that an unemployment rate of 7% would be the trigger, a target he expected to be reached three years hence.

By February this year Mr Carney had buried that guidance, as it became clear a 7% unemployment rate was imminent. His replacement guidance was much vaguer and he deliberately avoided making himself beholden again to a single economic number. At the time, the Bank was implicitly forecasting an interest rate rise in spring 2015.

In June the picture suddenly changed again when Mr Carney addressed the great and the good of the City of London assembled for the Lord Mayor's Banquet at the Mansion House. On the subject of increasing rates, Mr Carney said "It could happen sooner than markets currently expect." Those few words set the markets thinking that the longstanding 0.5% base rate could disappear before the end of the year.

One member of the House of Commons Treasury Select Committee compared Mr Carney's words to those of an "unreliable boyfriend" – one day hot, the next day cold. Mr Carney's real problem is that he has been attempting to make a series of short term economic forecasts. There is a lesson here for all investors, however knowledgeable: if you think you can predict how markets will move in the near term, you are almost certainly deluding yourself. Far better to ignore the short term 'noise' and take a long term view. Do get in touch to discuss your investment strategy.

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Women and pensions – time to get serious

The age at which people can start to take the state pension is changing and women are particularly affected. Until 5 April 2010, women were still able to receive a state pension at age 60, but a woman currently aged 45 now has to wait until she is 67 for her state pension.

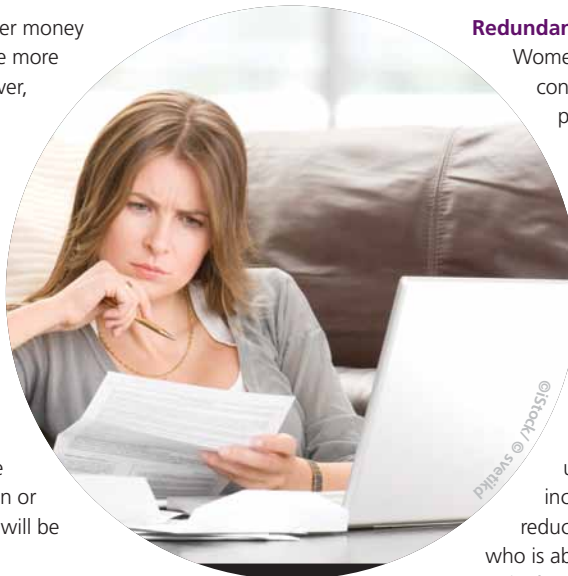
Some studies show that women can be better money managers than men because they tend to be more conservative and do their homework. However, there does seem to be a major problem for many women when it comes to providing for their own pension. A recent Scottish Widows 'Women and Pensions' report (October 2013) stated "by the time they retire, 41% of women have realised they didn't prepare adequately compared with only 24% of men".

Status is immaterial

Single, separated, divorced and widowed women are in no different a position from a man when it comes to the need to provide for adequate income in later life. Any woman or man relying on state pension benefits alone will be in for a great disappointment.

Married women and those in civil partnerships or long-term relationships, may be relying on their partner's pension to provide for them as well. This ignores the possibility of their partner's death, or even divorce, separation or one of the many other potential major upheavals in life.

A divorced woman may now receive some pension benefit if her former spouse or civil partner had a pension. However, this is most unlikely to be anywhere near the real value of the income in retirement that she might have expected if they had stayed together.



Redundancy of a spouse or partner

Women planning for their future also have to contend with the redundancy of a spouse or partner, or the failure of their business. In such events pension contributions naturally cease and any resulting pension would be very much reduced.

Tax savings

There are often sound reasons in many families for ensuring that both spouses or partners have pensions. It is still common to encounter wives who have little or no income in retirement and are therefore not making full use of their personal allowance, under which currently the first £10,000 of their income is tax-free (subject to age allowance and reductions for high income levels). A wife or partner who is able to produce a pension (including her state pension) of up to £10,000 a year, in present day values, will receive every penny. We are here to advise you should you need help with pension planning.

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The introduction of NISAs on 1 July and the new higher limits for Junior ISAs (JISAs) have created a curious anomaly. 16 and 17 year olds now have an investment limit of £19,000 per tax year – £15,000 in a cash NISA and £4,000 in a JISA – more than any other age group. We can help should you need advice. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The other bricks and mortar

It's not only residential property that is rising in value.

The UK's fixation with house prices is once again to the fore, with a relentless stream of press comment and increasing regulatory activity aimed at preventing a housing bubble. Much less attention has been paid to the commercial property market, which is also enjoying a strong revival.

The recession hit commercial property values hard, with a decline from the 2007 peak to

the 2009 trough of 44%. However, since May 2013, commercial property values have risen each month, bringing total growth by June 2014 to 10.1%, according to Investment Property Databank (IPD). Prices are "still well below the peak levels of 2007" the IPD says, which means rental yields remain close to 7%. It is therefore no real surprise that in May, commercial property was the most popular fund sector for individual investors.

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Looking beyond student loans

The new academic year is underway and with it comes more student borrowing.

Quite how much each student can borrow towards tuition fees and maintenance depends on a variety of factors. Scottish students living in Scotland pay no fees and there are varying levels of fees elsewhere in the UK. Worst off are those students with English roots who in 2014/15 face borrowing:

- Up to £9,000 to cover tuition fees.
- Up to £5,555 to cover living costs away from home (£7,751 if studying in London).

It doesn't take a mathematics degree to calculate that a three year course could easily leave the newly job-hunting graduate over £40,000 in debt.

Once the course ends, the process of debt repayment begins. The rule for 2014/15 students is that repayment normally starts once earnings exceed £21,000 a year. Repayments are then at the rate of 9% on the excess, so a graduate with an initial salary of, say, £25,000 would pay £360 a year (9% x [£25,000 - £21,000]). That doesn't sound too bad until you consider:

- The 9% is coming out of income that

has already suffered 20% income tax and, probably, 12% national insurance contributions.

- Student loans are not interest-free, but carry inflation-linked interest that varies between RPI and RPI + 3%.

The well-respected Institute for Fiscal Studies recently examined the likely repayment pattern for today's (English) students and estimated that:

- The average graduate will start working life with debt of over £44,000 (in 2014 prices).
- Nearly 75% of graduates would not repay their debt by the end of 30 years after graduation, at which point the outstanding amount (average about £30,000) would be written off.

If you have children (or grandchildren) at or planning to go to university, those numbers give serious cause for thought. If you want to help out financially, then the obvious courses of action – supplying funds to replace loans or



paying off part or all of the debt – may simply be saving the Government money.

As a result, in terms of financial assistance you now need to think beyond the issue of loan repayment. Your aim should focus more on a flexible build up of capital for your graduate (grand) child, so that their student debt becomes less of a deadweight on their life plans. As with so much else involving children, the sooner you start planning, the better...

Investments that can improve the world

Ethical investing in the UK has been available since the 1960s, but it has only really been of interest to investors with serious concerns about such issues as the environment or working conditions in developing countries.

It is estimated that there is now around £12.2bn invested in UK green and ethical retail funds. While such funds tend to be referred to under the generic name of 'ethical funds' or increasingly often 'socially responsible investments' there are differences that can be very important for particular investors.

- Ethical funds – Funds that call themselves 'ethical' or 'socially responsible' tend to apply negative standards when deciding which companies to invest in. For example, they may avoid investment in companies which are involved in the production of alcohol, tobacco and pornography. They may avoid companies that supply armaments, or operate in countries with oppressive regimes.
- Green funds – Funds that call themselves 'green', concentrate largely on what has become known as 'green consumerism'.

In many green funds you will find stocks such as Marks & Spencer and Tesco because they sell organically grown vegetables and detergent that is said to be environmentally friendly.

Many green funds are passive, investing in companies that they believe do not actually damage the environment 'too much'.

- Environmental funds – Funds that call themselves 'environmental' do not apply ethical criteria as such. Their main aim is to invest in companies with a significant involvement in improving or maintaining the quality of the environment.

A size issue

It is important for investors in ethical funds to realise that nearly all such funds are heavily invested into smaller companies. The screening process has tended to drive ethical funds away

from large companies. However, when we speak of 'smaller companies' these are usually defined as those with a capitalisation of less than £200m.

Anyone thinking of investing into an ethical fund should appreciate the impact that investing predominantly in smaller companies could have on the short term performance of their investment. Such funds are predominantly suitable for growth investments rather than producing income. There is a wide choice of ethical investments and in order to ensure funds are chosen to suit your circumstances, you should seek financial advice.

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Tax, pensions, and politicians

As pension reform continues, there is a new protection option to consider along with fresh threats to the future of tax relief.

Individual Protection, a new option to protect your pension benefits from tax, is now available. On 6 April 2014 the lifetime allowance, which effectively sets the normal maximum tax-efficient total value of your pension benefits, was cut to £1.25m. Individual Protection allows you to keep a lifetime allowance equal to the value of your pension benefits on the day before that reduction, subject to a maximum of £1.5m.

To be eligible to claim Individual Protection:

- Your pension benefits on 5 April 2014 must have had a total value exceeding £1.25m; and
- You must not have already chosen Primary Protection.

If you are eligible to claim Individual Protection, you should discuss the option with us before taking any action. An early start makes sense, as gathering the values of your pension benefits can be a slow process.

The tax treatment of pensions

How pensions generally are taxed looks set to

return after next year's general election. The current pensions minister, the Liberal Democrat Steve Webb, has called for tax relief on pension contributions to be at a flat rate of 30%, while the Labour Party is also talking about restricting tax relief to basic rate for some high earners. As yet the Conservatives have said nothing about future plans for tax relief. However, the Centre for Policy Studies (CPS), a think tank with links to the party, has proposed scrapping tax relief completely and replacing it with a Government top up of 50p per £1 of savings, up to a maximum of £8,000 annual savings.

Contribution tax relief is one of the few remaining 'low hanging fruits' for politicians who are anxious to raise revenue with the minimum amount of public outcry. In other words, if you are planning to make a large pension contribution, it seems wise to consider doing so before the polls close. This is a complex area of retirement planning and you should seek financial advice so individual circumstances can be considered.

The value of tax reliefs depends on your individual circumstances. Tax and pension laws



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Most people are astute enough to ignore dubious emails purporting to be from their bank and asking for details of their account. Bogus HMRC emails, however, offering a tax refund can catch some people out – particularly if they are actually due a refund.

The aim of such 'phishing' emails is to obtain bank account or credit card information, and HMRC have warned of a recent surge in their use. Be particularly careful of links to what looks like the homepage of HMRC's website, and of course do not download any attachments. Remember – HMRC only contacts customers who are due a tax refund by post, never via email.

Estate planning: changes ahead

New and future legislation is set to change some longstanding rules – make sure you are prepared.

The Inheritance and Trustees' Powers Act 2014 will affect many estates in England and Wales when it comes into force, probably on 1 October. It substantially changes some of the rules of intestacy, which determine how your estate is distributed if you die without a valid will. For example, the Act says the survivor of a childless married couple or civil partners will inherit the whole estate, rather than part potentially passing to the deceased's parents, siblings or the siblings' children. The Act

undoubtedly improves the intestacy provisions, but is still no substitute for a properly considered and drafted will.

There has also been an announcement of the 'simplification' of the inheritance tax treatment of most trusts. Legislation is due next year, but some changes were effective from 7 June 2014. As often happens when 'simplification' is promised, some tax saving opportunities have disappeared. Full details are awaited, but it is

already clear that fresh gifts into existing trusts need careful consideration. The use of trusts in wills is also likely to require review, even if you made your will before 7 June.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. Any levels and bases of, and reliefs from taxation, are subject to change. The Financial Conduct Authority does not regulate tax and trust advice and will writing.