



Crystal Wealth Management

review

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# Investment risk – how much can you afford to take on?

**Understanding what risks you can afford to take and are willing to consider should lie at the heart of your investment decisions. Talking this through with you is one of our key tasks as financial planners.**

First we need to establish your so-called 'capacity for loss'. That's the amount you can afford for an investment to go down. Some people are clearly much more capable of withstanding a loss than others.

Then there is the degree to which you can cope emotionally with the possibility of an investment loss. Some people will only rest easy if their money is in a deposit account, while others will toss and turn with worry if their savings are in a low or no return environment.

Investing in equities provides the possibility of long-term growth, but this is far from being guaranteed. Indeed you could lose money on such investments because they can fluctuate in value, especially in the short-term. In contrast, cash is very unlikely to provide much growth, and has tended to be eroded by inflation in the longer term; but you do have the comfort of knowing that your cash deposit isn't generally likely to suffer sudden ups and downs.

That's how equities and cash deposits have generally performed in the past, but of course, the past is an unreliable guide to the future.

Assessing your risk profile in this way provides the essential foundation for the investment process, starting with asset allocation – deciding how much you should invest in the different types of assets – and then going on to choosing funds and tax vehicles suitable for your circumstances.

The value of your investment 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.



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# Take action on year end financial planning

**The tax year 2013/14 ends on Saturday 5 April. So don't leave taking tax saving action until the last minute.**

**Individual Savings Accounts (ISAs)** The 2013-14 ISA allowance is £11,520, of which you can invest up to half – £5,760 – in a cash ISA.

**Capital gains tax (CGT)** Everyone, including minors, can realise tax-free capital gains of up to £10,900 this tax year as their annual exempt amount. Married couples and civil partners can benefit from two of them totalling £21,800.

**Inheritance tax (IHT)** There are several types of gift that you can make each year without having to wait seven years before they become exempt from IHT. The most useful exemption is regular gifts from income that do not reduce your standard of income. It is important to organize and document these carefully, so do get in touch with us for help.

**Income tax** There are several income thresholds above which your tax rate can rise steeply. Some of these are not visible, like the 60% effective tax rate on the band of income between £100,000 and £118,880 where the tax man gradually takes away your personal allowance. We can advise on ways to mitigate this.

**Pensions** The government is aiming to reduce the cost to the Treasury of the very valuable pension tax reliefs. So the limit on tax-efficient contributions will be reduced from £50,000 to £40,000 for the next tax year. The total you can hold tax-efficiently in a pension will drop from £1.5 million to £1.25 million.

Fortunately you can reduce the impact of these changes, but you should get help as soon as possible. You should decide how much to contribute for the



current tax year and whether you need to make a special election to protect your effective maximum benefits if they could be affected by the new lower lifetime allowance of £1.25 million for 2014/15. The options can be complicated and you should take competent pensions advice well before 5 April.

The value of tax reliefs to you depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.



**Do you still hold with profits pension or life assurance policies? If you do, the chances are that the latest round of bonus declarations has not been good news. The prolonged period of low interest rates has made life hard for many with profits providers because of the guarantees built into the policy structures.**

**A zero or near to zero bonus rate does not automatically mean you should change your investment, but it should prompt you to review your options. Why not ask us for an analysis of your with profits policies before the next disappointing bonus season arrives?**

## What if it wasn't just a cold..?

**A dose of flu can give pause for thought.**

Winter is the time when you are probably most likely to catch something that keeps you off work for a few days. It is no fun being stuck at home feeling unwell and the return to work is usually a welcome release. Normally your finances will suffer little or no effects from the enforced confinement.

Now think what would happen if the illness that struck you down was not flu, but something

much more serious. Suppose that instead of three days out of harness it was three months or even three years. How would you, your family and your finances cope?

If you are an employee, your employer may not pay you sick pay for that long. If you are self-employed, there is no employer to provide sick pay, other than yourself. There is always state provision, but the Employment and Support

Allowance is far from generous and comes with strict eligibility tests.

The solution – as with stopping flu – is to take preventive measures. Income protection can help replace your earnings if you are unable to work until you regain health. Don't wait for the next bout of flu before thinking about it.

# The changing challenges for retirement

**The first ever “comprehensive review of the UK’s retirement needs” is how the Association of British Insurers (ABI) – the trade body for the UK insurance industry – has described its new initiative.**

The review will take a long hard look at people’s financial needs in retirement, analysing how well the current state pension and retirement income products cater for retirement needs, and what changes are needed to ensure people have adequate pensions. Some familiar and key themes have already been identified.

## Rising life expectancy

People are living much longer than they used to. The chances are that your retirement fund will need to provide you with an income for much longer than your parents or grandparents required. So your pension fund will have to be significantly larger to provide you with the same income that they would have received. Alternatively you might well have to work for longer than previous generations would have done.

## Increased pressure on the healthcare system

A very high proportion of National Health Service (NHS) expenditure is focused on the elderly. With more people living a lot longer, this pressure on the NHS is likely to intensify. When considering how much income you will need in retirement, you should think about the very real advantages and the potential costs of having access to private health provision. Will your retirement income be enough to cover the costs of private medical insurance?



## Securing an adequate income in retirement

Saving for retirement in tough economic conditions is really difficult when there are other key imperatives like rising housing and education costs. The ABI review identifies that people will need to save more and save longer. What is more, they will have to achieve this in a tax system that seems likely to become less generous towards higher rate taxpayers.

Another challenge is the current prevailing environment of low interest rates, which depress returns from annuities as well the incomes of retired people generally.

## Long term care

The early years of retirement are typically those when people are at their most active with travel, holidays and other pastimes. The later less active years may require less income, except for the one in six of the over 85 years who the ABI estimates will need long term care.

Pension planning and design will need to reflect these changing needs in retirement. Please get in touch to discuss your retirement planning. For long term care we act as introducers only

# Raking over the Autumn Statement

**There were no December giveaways, but the Chancellor still delivered a few pre-Christmas surprises.**

In recent years the Autumn Statement has become a second Budget in all but name. The 2013 version was no exception, with several new measures revealed alongside the usual deluge of tax and economic numbers. There were several points to note.

**Income tax** There was confirmation that the 2014/15 personal allowance will increase by £560 to £10,000 and the higher rate (40%) tax threshold will rise by a more modest £415 to £41,865.

The Chancellor said little more about the transferable tax allowance, which from 2015/16 will allow couples (married and civil partners) to transfer a fixed £1,000 of allowance between themselves, provided neither pays tax at more than basic rate. The maximum tax saving will be £200 a year.

**Capital gains tax (CGT)** The annual exempt amount will rise to £11,000 for 2014/15, as previously announced. From 6 April 2014, only the final 18 months of ownership will be ignored for CGT when calculating any tax due on the sale of a private residence.

**Individual Savings Accounts (ISAs)** The ISA investment limit will rise by £360 to £11,880 for 2014/15, with the cash limit increasing to £5,940.

**National Insurance Contributions (NICs)** If you reach state pension age before the start of the new single-tier state pension on 6 April 2016, you will be able to top up your state Additional Pension entitlement by making a new type of NIC, Class 3A. Further details are awaited.

**Inheritance tax** Some technical changes to the administration of trusts were announced, but the change that was most widely feared – restricting the advantages of multiple trust structures – appears to have been deferred until April 2015.

**State Pension Age (SPA)**, which is currently due to reach 67 by April 2026, “could come forward to the mid-2030s, and ... increase further to 69 by the late 2040s.” At that rate a SPA of 70 could arrive by the early 2050s, bad news for anyone aged 20 or less.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax and trust advice.

# The interest rates vs yields game – can you come out on top?

**In the week before Christmas, two events occurred on the same day which hinted at an end to near-zero short term interest rates:**

- The US central bank, the Federal Reserve, announced that it would begin to wind down (taper) its long-running programme of quantitative easing (QE).
- In the UK it was announced that the unemployment rate had fallen to 7.4% from 7.6% the previous month. In August the UK's central bank, the Bank of England, had given 'forward guidance' that it would not consider any interest rate changes until unemployment fell to 7.0%. Back in the summer, the Bank thought the this figure would not be reached until mid-2016. Such pessimism now looks unrealistic.

Despite these events, both central banks seem intent on keeping rates low for as long as possible to avoid weakening the economic recovery.

This is bad news if you hold money on deposit with banks and/or building societies. The interest that you can currently earn on instant access

accounts does not keep pace with inflation, even if you are a non-taxpayer.

## Finding income opportunities

If you are prepared to forgo the capital security offered by deposits, there are plenty of income opportunities available. While short term rates have remained flat, the income yields from government bond (gilts) and other longer term fixed interest securities have been rising. Investment in fixed interest funds via ISAs can be a tax-efficient way of boosting your income – all of the interest is free of UK tax.

Many share-based funds also continue to offer attractive dividend yields, despite the solid performance of world stock markets during 2013. In the UK, in mid-December 2013 the average dividend yield on shares was about 3.4%. However, you do not have to confine yourself to these shores as a growing number of equity income funds focus on overseas companies. Investing in overseas funds are higher risk and advice should be sought before investing in them.



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**When did you last check your life and critical illness insurance? Whether you can remember or not, it's always worthwhile re-appraising your cover. Changes in your income, mortgage arrangements, and lifestyle could all lead to the need for a cover update. And if your family circumstances have changed, you may need to increase policies to reflect this. But even if your policies remain adequate, we might suggest re-broking – moving your policy from one insurer to another to buy the same benefits for less. Alternatively, re-broking could mean getting more cover for the same outlay. It can pay to discuss your options.**

## Commercial property looks up

**The residential property market is not the only property market showing signs of a revival.**

The latest figures from Nationwide show UK house prices rising by 6.5% in the year to November. While this rise has grabbed the headlines, there is another UK property market that has come back to life – the commercial property market.

As in the residential sector, the London commercial property market has been leading the rest of the UK. However, according to the property performance experts at Investment Property Databank (IPD), regional markets "are now seeing growing property values". Commercial property values rose for seven consecutive months to November 2013, although the cumulative increase was a modest 2.9%. Rents are now increasing as well

for office and industrial property, but the retail sector is still under a cloud. Most importantly, rental yields remain attractive.

Investor interest in UK commercial property has increased, with the Investment Management Association reporting that in October 2013 property was the third best-selling sector.

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.