



Phil Stevenson's News 2005.

Property versus Shares

The current obsession with bricks and mortar is derived from over a decade of rising house prices. The market is perceived as being lower risk than equity investments, but the period immediately before the current upturn was marked by an elongated crash. This turbulence is apparently forgotten as the stock market has provided disasters that are much fresher in the memory.

Although the housing market has enjoyed an uninterrupted upturn since 1993, the three and a half years preceding this rise saw many homeowners suffering from plummeting prices, plunging many into negative equity. The Nationwide House Price index shows that during this period the average residential property fell by over 20%, from £62,782 in the third quarter of 1989 to £50,128 in the first quarter of 1993.

But since the bounce in 1993, property purchase has almost without exception represented an investment utopia, as house prices have embarked on an unprecedented upswing. From the national average of £51,050 at the end of 1993, the UK residential property market has seen an increase of 211% to £158,987 according to the latest Nationwide index.

Property's standing has undoubtedly been enhanced by the unpredictable performance of rival asset classes. During the recent property boom, equities have suffered some high profile difficulties. The year 2000's technology bubble undermined the confidence of many in stock market investments.

Obviously property can go up and down too, but is generally perceived to be less risky than equities. People have short memories – the property crash of the late 1980s and early 1990s appears now to be long forgotten, whereas the technology bubble and the general malaise of equity markets are fresher in the investors' minds. The general public's most recent view of the property market is of a long upturn, which has been forecast to be coming to an end for the best part of a decade, but which has only ever slowed, without ever going into a significant reverse.

The turbulence of the equity markets has led people to shy away from stocks and shares and look elsewhere for returns and this is where property has come into its own. In addition many have lost faith in pensions and they are turning to their homes to provide for their retirement, either through equity release or simply trading in their house for a smaller home.

For many people, a home is the only investment they will have, even if most will never view it as such. Many people with no other investments have benefited from rising house prices. The resulting complacency means that many will happily invest in property and believe the market to be safer than equity, a stance that is anything but guaranteed.

December 2005

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New Year's Resolution

It's at this time of year that individuals start making their resolutions for the new year, you know the ones; get fit (gym membership soars in January), lose weight (similarly for weight watchers), stop smoking and writing a will.

Surprisingly writing a will should be the easiest and most durable of the New Year resolutions. We invariably advise clients that the most effective piece of financial planning they can do during their lifetime is to write an effective will, yet still almost 75% of the adult population haven't written one yet. If an individual hasn't written a will then they are said to have died intestate.

In the worst case scenario if you die intestate the government can end up with your assets- if you have no close relatives and even if you do your wishes may not be followed.

The rules on which members of family get what only apply when no will has been made or where certain assets of the estate cannot be covered by the will.

Intestacy rules dictate that if you are married with children then when you die intestate your spouse gets everything up to £125,000 together with your personal possessions. The remainder is split in half with 50% going to your children when they reach the age of 18 and the balance going into trust for the rest of your spouse's life. When the spouse dies this half reverts to the children.

If you are married with no children but there are other relatives, then the spouse receives everything up to £200,000 and again takes your personal possessions. The rest is divided with half going to the spouse and the balance going to your parents. If your parents are dead then this half is divided amongst your brothers or sisters or their children.

If you are unmarried the position for your life partner could be even more distressing, a shared home may have to be sold if it is not in joint names. The proceeds along with the rest of the estate will go to your next of kin. To stop this happening your partner will have to resort to the courts to recover their share of the property and receive any financial support from the estate.

To save your estate being the subject of a court action in a similar way that specific requests are often made, specific exclusions should also be stipulated in a will, failure to do so could leave the will open to being challenged.

Ultimately if there are no living relatives and no will the money goes to the Treasury.

Everybody should have an appropriate and up to date will, if you don't you risk making the biggest beneficiary of your estate Her Majesties Government.

December 2005

How much state pension?

Increasingly during my working week I advise people to investigate their state pension entitlement, because contrary to some commonly held misapprehensions the Old Age Pension is not a universal benefit payable to everyone irrespective of their National Insurance Contribution history.

In the past this would entail a torturous process that could take anything up to a month. Well now everyone can do this in the comfort of their own home. If you visit www.gateway.gov.uk and apply for a user ID and set a password you can discover just what your state pension entitlement is. This can be particularly useful for individuals who have had a checkered employment history involving periods of unemployment or self employment. It is also extremely valuable for women who may be unaware of their contribution record if they have had a prolonged period of time out of work to bring up a family.

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Government to give away free money!

A number of readers have quite clearly been 'Browned Off' by the changes Gordon Brown has introduced to the pension simplification legislation he made in his recent pre- budget report. Most notably concerning the withdrawal of the facility to introduce property and other esoteric investments such as antiques, fine wines and other collectibles into self invested personal pensions. There may also be another loophole that he will look to close.

After 'A' Day, 6th April 2005, individuals with less than £15,000 in total in pensions, so long as they have reached age 60, will be able to withdraw the full value of the fund as a one off cash payment.

If an individual has earned income but no pension provision then they will be able to contribute up to one year's salary into a pension. So if their income allows a one off payment of £11,699 this would be immediately grossed up to £15,000 with the attendant tax relief. The individual could then immediately crystallize this pension and because it meets the new criteria take the whole lot as tax free cash- an instant rate of return of 22% with no risk attached.

Alternatively non earners, again with no pension, could look to pay in the stakeholder limit of £2,808 (net) for approximately 4 years invest in a cash fund and look to crystallize the whole fund as a one off tax free lump sum. Although in this instance it would be advisable to monitor any growth on the fund to ensure it doesn't go past the magic £15,000 figure.

I appreciate that it is not an exact like for like comparison but this looks better than any cash ISA I've ever seen.

In fact it looks that good I think I'll have to prepare myself to be 'Browned Off' again in the near future!

December 2005

Chancellor changes the rules

The chancellor, Gordon Brown in his pre budget report has announced the government will remove the tax advantages for investing in residential property or certain other assets such as fine wines, classic cars, art and antiques.

From A-Day, 6th April 2006, under anti-avoidance and fraud measures the government will remove the tax advantages for residential property and other esoteric assets to prevent people benefiting from tax relief in relation to contributions made into self invested pension schemes (SIPPS) - for the purpose of funding the purchase of holiday or second homes and other prohibited assets for their or their family's personal use.

The government says it has decided to tighten the rules governing allowable investments by certain types of registered pensions schemes, notably those which are directed by the member, to avoid the potential abuse of people directing assets for personal benefit rather than to build up a retirement fund.

These changes will apply to all registered pension schemes where there is member-direction such as today's SIPPs, SSASs and a number of other schemes.

Legislation will apply to direct investment in residential property and it will also apply to indirect investment in prohibited assets - such as residential property owned by a company in which a SIPP had 100% of the shares.

Although the assets can still be put into the pensions, they will be subject to an unauthorised member charge of 40% and then a scheme sanction charge of 15%.

The move by the government is a disaster as the industry has spent hundreds of thousands if not millions of pounds preparing for these assets, along with people who have got into a cash position ready to buy property in April-all have now been left high and dry.

This is an appalling way to treat people, and an unprecedented move to change their mind at the 11th hour when they knew the problems three years ago. Although I can understand some of the issues surrounding holiday homes, buy-to-let property should definitely be in there as they are a good investment, provide a good income stream and have a real relevance to retirement planning.

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The driving force behind this last minute change of mind is that Gordon Brown has got frightened by the potential tax relief that may have been claimed as people put residential property into their pensions, some estimates put the amount of relief that may have been claimed somewhere in the region of £4 billion.

So, just as you thought the Government was getting serious about our pension problems and A-day was supposed to enable individuals to gain some control of their retirement planning, the Government has shown a complete lack of understanding of this issue. On the back of the rubbishing of the Turner Report it seems that 8 years on from gaining power we are no nearer to addressing this issue never mind solving it.

December 2005

Retirement provision

Over 6 million workers are not contributing to a pension scheme, citing affordability as a major concern. Independent research provided by the B&CE Scheme reveals that one in four workers say they can't afford to start a pension plan whilst almost 1 in 5 just haven't got round to it yet!

Although 37% of individuals in full-time work don't contribute to a pension plan, the equivalent of 6.5 million people, the research claims a quarter of people in full-time employment, or 4.5 million people, do not make any provision at all for their retirement. This figure rises to 43% among workers who are in low-paid jobs, which highlights the plight likely to face the less well-off in their retirement.

The research claims that among those who do contribute to a pension, only 13% say they are saving for their retirement needs, with 49% only paying in an amount which they can afford. The survey also suggests the idea that people don't trust pensions schemes seems to be a myth as only 10% of those not contributing to a pension say it is because of a lack of trust in the pension sector.

The forthcoming final Turner Report is expected to highlight once again the current state of under provision of pension savings in the UK and the stark position that many people will find themselves in when they come to retire, unless considerable steps are taken to address the situation.

Saving for retirement is quite a big issue for lower income groups. In particular for the lowest earning 30% of the population, saving for a pension is just not on the cards, as they have no discretionary disposable income to put towards saving. Many of them survive on government benefits and they would need to be paid more benefits to cover the cost if compulsory saving was introduced. Despite many stereotypes these are not the sectors that drink and smoke the most, so they have nothing to give up in order to save for pensions. This is the chunk of society that the government should be targeting and looking at ways to give them proper pension provision.

November 2005

Plugging that retirement provision gap

By the end of this month Adair Turner will have delivered his report into the failings of our current retirement provision and in all probability will suggest a mixture of potential solutions; work longer/ retire later, save more/ encourage more saving reduce the burden on the state/ encourage self reliance.

Undoubtedly the Government will want to have a period of consultation to discuss his findings and will then set up a committee to propose a solution that will need to be debated, amended, watered down and legislated for. As you can imagine this may well take some time.

Which leaves me wondering just how seriously the Government are taking this problem, after all there are no votes in dealing with a problem that may well haunt all of us 20 years from now.

As evidence of this the Government recently caved in to union pressure over the reformation of the public sector pension scheme- saddling everyone in the private sector with a pension liability that in a worst case scenario may not reduce for over 39 years.

The current 'pension and savings gap' is estimated to be between £27 billion and £57 billion depending on whose statistics you believe. But how likely is it that the gap will ever be closed? Does Gordon Brown

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really want large amounts of surplus capital being sucked out of a stalling economy when what he really needs is for us to keep spending so that he keeps those nice juicy tax revenues coming in?

Maybe the younger generation has the answer. In a recent poll conducted by the Prudential when asked how the under 30's were going to fund their retirement, 10% of them said they were relying on a lottery win!

November 2005

Report of the Pension Commission

The key proposals of the Pensions Commission report by Lord (Adair) Turner are now in the public domain. There is going to be a long and robust debate about how to resolve the so-called savings crisis and the demographic time-bomb facing ourselves as a nation.

The Pensions Commission is recommending to the government a longer working life in return for a more generous state pension.

In its preliminary report last year, the Commission suggested that today's workers faced being poorer in retirement, paying higher taxes now or extending their working lives. The present proposal seems a neat compromise. On paper this looks attractive. In return for raising the state retirement age from the present age 65 to 67, workers will see their basic state pension rise from £80 a week to £109, which should rise in line with average earnings and not prices.

Higher savings would be encouraged through a Britsaver plan –to which workers will be automatically enrolled unless they actively choose to opt out. Interestingly, the report points out that about 9m are not saving enough for retirement.

These 9m are the very people, we can be sure, who have so far failed to take up the much-vaunted stakeholder plans, which were meant to do a similar job of encouraging saving. Furthermore, implicit in the proposals is the idea of abandoning the much disliked means-testing, although the Treasury still favours this less expensive option.

But there are still unanswered questions: the people who have failed to save enough and who have not taken up stakeholder pensions are, in the main, not doing so because they just cannot afford to save – and unless something spectacular happens in their lives, such as a lottery win – will remain so for the rest of their working lives.

In his first major speech as work and pensions secretary, John Hutton recently vowed to press on with reforms, saying Britain could not put off difficult decisions about future pensions provision. "Rather like the individual who can't put off saving for retirement until tomorrow, we as a society cannot afford to put off laying the foundations for the future retirement security we wish to enjoy," Mr. Hutton said.

Mr. Hutton also said Britain needed a "proper, decent state pension, a floor under which no-one should fall", a tacit endorsement of Lord Turner's conclusions and a challenge to Gordon Brown's determination to stick with the means-tested pensions credit.

When this Government came to power in 1997, Tony Blair made Frank Field his first pensions minister with a remit to "think the unthinkable". Well just as Mr. Field began to think the unthinkable he was moved from his post. Almost 8 years on and Gordon Brown is prevaricating over this report and trying to dodge the financial implications that lie within. Come on Gordon, you've had 8 years to consider this issue-did you really think the commission's report would come up with a system of reforming the pension market place that would actually cost less?

November 2005

MPs scheme won't have to pay PPF levy

Ever wondered if there is a 'them and us' when it comes to pension provision well how about this? The Parliamentary Contributory Pension Fund, the funded final-salary pension scheme for Members of Parliament, will be exempted from having to pay towards the annual levy to support the Pension Protection Fund (PPF).

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The PPF has just been put in place to (hopefully) provide some level of security to members of final-salary pension schemes whose benefits come to be at risk following employer insolvency. The idea is that all well-run and well-funded final-salary schemes will have to pay annual levies to the PPF as a sort of insurance premium to help those who may need to claim in the future. (The National Association of Pension Funds (the NAPF) this week cited the additional costs of providing financial support to the PPF as being among the reasons for the likely decline of final-salary schemes in the private sector.)

Some schemes and types of schemes are exempted from having to pay levies towards the PPF. It now turns out that one of those 'types' of schemes will be the scheme that provides pensions for MPs.

The Government runs a number of very large pension schemes for its own employees. Some of these are unfunded and have benefits underwritten by Acts of Parliament and we've got a £690 billion black hole in our future public finances earmarked to pay out the promised pension benefits when they become due. The schemes for teachers and the armed forces are in this category. But many Government-sponsored final-salary schemes are funded just like private sector schemes are, the MPs' scheme falls into this category as do the 99 local Government pension schemes.

The argument for these funded final-salary schemes not needing to pay the PPF levies is that as they are considered to be ultimately underwritten by the Government, so they're never going to go belly-up. "So why pay the insurance premium?" This logic implies that as the Government has access to an unlimited supply of money (a.k.a. 'Ours') it will never default on its pension promises to its own employees. In effect this means that the 5 million or so people in Government-backed schemes have guaranteed pensions which don't need protecting. Guaranteed pensions are like gold dust. The MPs' scheme is so secure, in fact, that it has been able to buck recent trends and has improved the benefits it provides its members. Indeed, the only schemes that need protecting are those in the private sector as they are the only ones likely to fail to live up to their promises.

If all the 20 million or so of us in the private sector workforce gave up our jobs and went to work as MPs or in local Government, we'd all have guaranteed pensions too and there'd be no pension crisis to worry about. The crisis is nothing to do with pensions at all; the problems are all to do with private sector pensions that's all.

So let's all leave the private sector.

November 2005

More IHT woes

In a recent survey the Halifax say there are now more than two million homes in the UK worth more than the inheritance tax (IHT) threshold. Figures published by the lender suggest about 12% of all owner-occupied properties, some 2.1 million, are now valued above the £275,000 threshold.

This is up almost three times from the 800,000 properties estimated to be above the then IHT threshold in the third quarter of 2000.

As a result, the Treasury is estimated by Halifax to be on target for a £3.4bn tax take from the market in fiscal 2005/6 - up from £1.6bn in 1996/7. The situation is, of course, linked to the rate of house price inflation over the past decade, which has not been met by rising IHT thresholds set by government.

Halifax' calculations suggest the current IHT threshold should be about £406,000, if the rate of increase had kept up with house price inflation over the past 10 years. Scheduled increases are expected to take the threshold up by 4% in April 2006, and 5% in April 2007, at which point it should reach £300,000.

Still, house prices are currently up 357% in the past 20 years, against a 102% increase in retail prices, Halifax says, with increases in the IHT threshold invariably linked to the latter. Over time the Treasury will take an increasingly large share of our inherited wealth unless we make suitable provision beforehand using this increasingly punitive tax.

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Home Information Packs

Anyone considering selling a house in the future may be faced with a bill approaching a £1,000 as the Government looks to introduce new regulations in the housing market.

The office of the Deputy Prime Minister is looking to introduce Home Information Packs (HIPS) as a prerequisite for a sale. There is growing concern that this measure will merely destabilise the faltering housing market. However the government maintains its plans will reduce the cost of buying a house, particularly helping first-time buyers.

Under the regulations, from spring 2007 anyone selling a home will have to provide potential buyers with a sheaf of documents including evidence of ownership, local authority searches and a new home condition report (HRC) before they can put their house on the market.

Opposition politicians and industry groups said yesterday the plan would create a new army of unregulated pack providers who could exploit buyers and sellers. There are also concerns buyers will have no confidence in the HRC provided in the pack and will pay to have a full building survey done themselves.

Home information packs will be a breeding ground for cowboys happy to ignore problems, or worse not qualified to identify them. Most buyers will simply not trust the report of a home inspector paid by the seller and will end up paying for their own survey as well. In fact most lenders in order to satisfy themselves to the suitability of a purchase will almost certainly insist on an independent survey.

November 2005

Redundancy, disability and your mortgage

Unemployment is rising and each year in the UK 5.5 in 1,000 employees are made redundant. Last quarter alone in 2005 almost 20,000 homes were repossessed. In addition almost 2.2 million people are off work on long term sick. These are all worrying statistics yet a mere 30% of people who have lost their job or are unable to work as a result of a disability are eligible to claim income support- and even this is very restricted. For example for mortgages taken out after October 1995 there is no benefit payment in the first 40 weeks and thereafter only covers the first £100,000 of mortgage interest.

Perhaps the most disheartening statistic of all is for all mortgages taken out in 2004 only 28% of borrowers had insured against this potential liability. Mortgage Payment Protection Insurance (MPPI) can cover against these eventualities and just as people think 'it'll never happen to me' -statistics show that last year alone 1 in 21 MPPI policies paid a claim.

Finally another statistic, from the Council of Mortgage Lenders, in the first half of this year over 100,000 people were more than 3 months in arrears with their mortgage. It seems that we as a nation prefer to walk the tightrope of financial security rather than protect those things that are dearest to ourselves.

November 2005

Another Stealth Tax?

Chancellor Gordon Brown is under pressure from senior Treasury advisers to launch a snatch and grab raid on the £20bn of unused funds in dormant UK bank accounts.

This money has accumulated over generations as savers forget about the old accounts they have with just a few pounds in them. Banks typically keep this money in the lowest paying deposit accounts (hence maximising their profits) and make little or no attempt to trace the owners of the money.

Tracing the dormant customers now could take the edge off criticism being leveled at banks for sitting on the unclaimed assets and using them to boost their profits for so long. Many UK banks have not acted despite whisperings of government plans to make them not only hand over the cash to charitable causes but also make them insure themselves against customers appearing years later to reclaim the balance and interest of their dormant accounts.

Economic analysts point out that the chancellor has an estimated £10bn black hole in public funding and, with a slowing economy and growing tax shortfall; dormant accounts present a growing temptation.

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One of the attractions of imposing a surcharge on dormant accounts, or even commandeering them, is that they would not be as unpopular as a direct tax hit on wage earners, such as income tax or national insurance contributions.

Another suggestion is that the chancellor plans to force the banks to hand over the money to charitable organisations such as Citizens Advice and community financial education trusts. Or maybe the chancellor will use the fund to offset part of the £27bn savings black hole this would be popular with the financial services sector and with trade unionists, however unlikely it may appear.

Now you may think this all sounds a bit farfetched but remember this is the Government that in its first few weeks in power managed to engineer a £5 billion pound raid on our pension funds. So don't ever be surprised.

November 2005

Stay Warm this Winter

This may appear to be an odd topic for a financial advice column. However how many readers over the age of 60 are aware of this scheme?

StayWarm is a low cost energy programme for the over 60's run by Powergen whereby individual's sign up for a fixed weekly/monthly bill. This then covers all electricity and gas consumption for a fixed monthly payment. So long as the property is less than three bedrooms and at least one individual in the home is over 60 they qualify. The fee is calculated on how many people reside at the home, the postcode and the number of bedrooms in the property.

Typically bills can be reduced and may be less than a normal quarterly bill, all that is needed to apply is a couple of previous utility bills to allow the supplier to assess usage.

So for the more senior citizens and with the cold weather approaching the ability to have unlimited usage of gas and electricity 24 hours a day and 365 days a year has to be a major benefit. Contact StayWarm on www.staywarm.co.uk or 0800 1 694 694 for a quote and compare this with what you are paying on a regular basis.

October 2005

Equitable Life

Equitable Life has recently dropped the High Court Case against its former auditors, Ernst & Young and two of its former directors and it would appear that the outstanding claim against 13 other former directors for £1.7 billion is now in disarray.

For unfortunate policyholders this means the prospect of some financial redress has receded even further into the distance. Those investors who have been hanging on in the hope of an improvement in their fortunes, these developments inevitably make it more attractive to investigate exiting the Equitable.

For those investors in the with profit fund, which is currently set up to protect its own interests rather than offer any growth for policyholders, the exit penalties that are currently in place for leavers of the fund have thankfully been reduced and this may make exiting the fund a more attractive proposition

There does remain the outside possibility that the investigation by the Parliamentary Ombudsman will rule that regulatory negligence occurred and that the government should pay compensation. However even if compensation does become a possibility it is fair to assume that the government of the day will drag its feet over actually paying out the cash.

October 2005

Civil Partnership Act 2004

The Civil Partnership Act 2004 is due to come into force on 5th December this year (2005). This Act is the one that gives same-sex couples the right to enter into a relationship that is legally recognised and comes with rights akin to marriage. When these laws come into force at the end of this year they will affect same sex couples pension entitlement in much the same way that it affects heterosexual couples now.

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Firstly state pension entitlement will be made available to Civil Partners to match the way pensions are accrued for married couples. So Civil Partners will have the same state pension rights as married couples, but this will only come into force from 2010, the date when changes are being made to equalise married couples' pension rights anyway.

In addition for company pension schemes there are a number of fundamental changes that will need to be made in respect of same-sex couples who enter into a Civil Partnership arrangement.

At the moment same-sex partnerships are recognised in many ways by scheme trustees as are the rights of scheme members with a common-law husband or wife. Death benefits, for instance, can be made if dependency can be shown. But there are some things that cannot be recognised unless couples are married, a good example being that people can only get divorced if they're married in the first place so pension splitting on divorce isn't possible without the marriage contract having been made in the first place.

After December the 5th this year (in fact the 21st December as there is a 15 day waiting period) same-sex partners who wish to may enter into a Civil Partnership agreement and get the same potential rights on divorce as an unmarried couple who subsequently marry. Pension splitting on dissolution of the Civil Partnership would be allowed.

The other obvious benefit in terms of both occupational and personal pension scheme membership, though, is that any benefits that would normally become payable to spouses will also automatically become payable to Civil Partners and schemes rules will need to be changed to reflect this.

October 2005

Buying Spanish Property with your pension

The possibility of individuals using their pension fund to buy a second home in the sun has clearly captured the imagination of the press, advisers and pension savers alike. However there are likely to be so.

Notwithstanding issues in the UK such as creating a Self Invested Personal Pension (SIPP) and finding a scheme administrator who will accept overseas property into the scheme. There are likely to be considerable issues to overcome in Spain.

Firstly the legal ownership of the residential property will rest with the SIPP, in the name of a UK trust, however Spanish authorities do not recognise property ownership held in the name of a UK trust. So the SIPP may have to buy shares in a Spanish company that in turn owns the property. Establishing a Spanish property company will entail significant costs.

If you do not intend to 'let' the property the scheme administrator may require you to do so and additionally to ensure protection from potential claims require the employment of a property letting/management company to ensure compliance with all appropriate legislation. Once again incurring significant costs.

If the property is owned by the SIPP then it will be free from UK income and capital gains tax. Under a double taxation agreement any UK taxes paid could be offset against Spanish taxes that may become due- however as there are no UK taxes to offset the property will be taxed as if the individual owned it i.e. negating most tax breaks.

Finally as the ownership will rest with the SIPP administrator then personal usage of the property will result in the individual having to pay rent to the scheme administrator at the going rate or be subject to a benefit in kind charge.

All in all it looks increasingly unlikely that using your pension to buy property overseas, even if all these hurdles can be overcome, will be anything but the preserve of the few.

October 2005

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Investing with the Banks

Customers have billions of pounds tied up in funds bought from Britain's high street banks over the past 10 years or so- the 10 largest bank funds are looking after £13.5bn of investors' money.

By and large the performance of these funds has been lackluster. Thankfully Money Management has produced a survey highlighting this under performance.

This survey highlights that, unfortunately, original investors are languishing in funds that are typically no longer promoted and often no longer open to new business. This means there is absolutely no pressure for the performance of these funds to improve so every effort should be made to make these investors realise how much performance they have missed out on over the years.

As for the current offerings from the major banks, there is not a lot to raise expectations for anything other than continued below average performance. Indeed it could well be argued in view of this, that investors would be better off in a low cost tracker fund, than the typically higher cost alternative offered by the banks.

I fear however that if investors have failed to wake up to the underperformance of many bank funds during the past 10 years there is no reason to suppose they will do now.

October 2005

Public Sector Pensions

Interestingly the TUC conference held in Brighton recently had this thorny issue at its heart. For too long we as a nation have ignored the issue of how we fund our retirement and finally the TUC began debating the issue of funding public sector pensions.

Alan Johnson, the Trade and Industry Secretary and Adair Turner, head of the pension commission both addressed the conference and gave forewarning that public sector pensions were no longer affordable or sustainable in their current format. This was treated with apoplexy by the Unions and there have been calls for what in effect would amount to a general strike to help protect the pensions of their members.

This is in stark contrast to trends within the private sector where final salary pension schemes are almost a thing of the past and more and more companies are closing those few schemes that are left open. The private sector ultimately pays for the public sector, so how long will it be before private sector employees start looking on enviously at their public sector counterparts retiring on generous final salary pension schemes?

So just how good are these schemes? Well for the vast majority of public sector schemes, irrespective of the length of service a member accrues, so long as retirement occurs at the scheme normal retirement age then in the first year of retirement the member receives more back from the scheme than the sum total of all their contributions and every year after that represents a 'profit' from the scheme. A significant return bearing in mind the majority of public sector schemes allow retirement at age 60. There is now growing pressure to raise the retirement age to 65.

Earlier in the year the Government proposed phasing in a rise in the normal retirement age from 2013 but in the face of Union opposition and an impending election backed down and is now talking of a change from 2018 onwards.

Unless someone gets to grips with this issue then expect to see big increases in both national and council taxes to pay for the pensions of the public sector. Unfortunately the unions' obduracy is not helping or informing the debate and a picture of ostriches and sand comes to mind!

September 2005

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