



## Phil Stevenson's News for 2006.

### Where there's a will there's a maybe...

Wills made in the UK may not be adequate to cover overseas property- this is because many of the countries that are popular for second-home buyers have significantly different inheritance laws.

Popular locations include France, Spain, Eastern Europe and far-flung countries such as Dubai and Australia. However buyers could unwittingly end up in a position where the wishes expressed in a UK will cannot be carried out.

In Europe there is no common law relating to inheritance and no matter what the size of property, it is highly advisable to seek local advice and consider using a foreign will to deal with your property.

This becomes all the more important when a holiday home becomes the place someone retires to.

There are currently moves within the EU to harmonise some aspects of inheritance. However, it is likely to be some time before this happens and the results at this stage are uncertain so seeking appropriate qualified advice is an obvious course of action.

*December 2006*

### Pre Budget Report

It has been an aim of this government, so they keep telling us, that they want to reform the pension system of this country, by helping us to save they will enable us to enjoy long and fulfilling retirements. The fact that they've now been in power for almost 10 years and are still fiddling whilst Rome burns beggars belief.

Gordon Brown last week delivered his pre Budget report, not mentioned in his speech but hidden away in the rafts of accompanying papers released to the industry were two huge changes-yet again- to the pension industry of this country.

Now bear with me... but if your Saturday nights are anything like mine, you will marvel at the sense of justice that Robin Hood brings to his efforts of wealth re-distribution. He seems to be able to pull these acts of treachery off whilst remaining the good guy. Maybe, our PM in waiting fancies himself in this role, but somehow he doesn't seem to be able to capture my sympathy vote. You see hidden in this report is the imposition of a tax rate of between 80% and 90% on Alternatively Secured Pension (ASP) funds on death, now that would make even Dick Turpin blush.

('A' day-the major piece of pension legislation -introduced only in April- allowed individuals to enter ASP, once over the age of 75, and by this means pass on their accumulated pension wealth-less an appropriate tax charge- on to their relatives.)

Yet this Government seems to be paralysed by an unfounded and paranoiac fear of pension savers passing their hard earned pension savings on to their heirs, even after a reasonable tax charge to neutralise the tax reliefs. There is a determined pro-annuity lobby in the Treasury that just won't accept the reality of the situation. Indeed, this is yet another botched attempt to solve a problem that some would say doesn't even exist; it could be argued this smacks of legalised theft. These rates of tax have not been seen in this country for almost 30 years. Lawyers will be licking their lips at the thought of mounting a challenge to this totally unfair tax treatment!

Secondly... Pension Term Assurance (PTA), the means by which individuals can take out life assurance and gain tax relief on the premiums has effectively been outlawed by this Government. Large numbers of

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18-20 Stamford Street, Stalybridge, Cheshire, SK15 1JZ.

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insurers are pulling out of the market as new changes to legislation enacted only seven months ago make this market effectively unviable.

Because of legislative changes introduced in the year 2000 PTA became effectively unmarketable, changes enacted in April 2006 effectively made it very marketable again- now it is yet again unmarketable. Now bear in mind this is the same government that has been in power all this time, they have consulted the industry extensively on these issues and yet the goalposts still move.

We are asked to believe in the government and have faith in their ability to provide us with the framework of a pension system that we deserve; I wonder why nobody believes them?

*December 2006*

## **Pensions in the future**

People aged between 22 and the State Pension Age will be automatically enrolled into personal pension accounts when they are introduced in 2012, if they are earning above £5,000.

Details recently released in the report: 'Personal Accounts: a new way to save', reveal people will be automatically-enrolled if they earn between £5,000 and £33,500 a year, although when the system is first introduced the earning bands will be based on the relevant Primary Threshold and Upper Earnings Limit for National Insurance contributions.

In addition the people outside the stated age range will be able to join the scheme voluntarily, and receive the compulsory employer contributions were eligible, while the band of earnings on which contributions are payable will be up rated in line with earnings to "ensure the scheme is sustainable".

However the white paper is asking consultation questions, and as there has been some representations suggesting it would not make sense for people nearing state retirement age to be auto-enrolled into the new system, it is asking for feedback on whether there should be a lower maximum age limit for entrants to the scheme.

The system will see employees contributing 4% of their earnings, which will be phased in over three years, together with 3% from their employer and 1% tax relief from the State, however the paper admits this will only achieve a minimum level of income in retirement, and says the personal accounts board will be "given a duty to encourage saving above the minimum level of contributions".

In addition once a person is a member of the personal accounts system, when they move jobs, if the employer doesn't provide access to an existing exempt scheme, then the individual can be "fast-tracked" back into the personal accounts system, and restart contributions, before the expiry of a new opt-out period.

The paper also confirms employees will be automatically re-enrolled into the scheme every three years, while the paper has been unable to suggest a level of contributions for the self-employed, and instead states: "self-employed people will be able to save in personal accounts at a level of their choosing", subject to the contribution limits.

Meanwhile on the issue of means-testing the paper argues the state pension reforms announced in the Pensions Bill recently, mean there will only be a small group of people- less than 10% of pensioner households in 2050, who will not benefit from saving in personal accounts because of means-testing.

And it argues the proposed reforms combined with the employer contributions mean "very few people will see little or no benefit from saving", while "the majority will see significant returns".

But it does admit some people will rightly decide not to save for a pension, and these could include those on "persistent very low incomes or those struggling with high unsecured debt."

As a result it points out that "ultimately, it should be for the individual to decide whether and how much to save based on their particular circumstances".

*December 2006*

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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 2006*

## Contracting in or out?

Way back in the late 1980's millions of workers were given, for the first time, the choice of either 'contracting in or out' of what was then the State Earnings Related Pension or what was commonly known as SERPS. Well SERPS has now gone and has been replaced by State Second Pension, S2P. But individuals still have the same choice, contract in or out, however despite it almost being almost universally accepted that individuals are better off being 'contracted in' to S2P it appears that the majority of individuals faced with that choice just do not trust the government...

Legal & General recently contacted its 'contracted out' customers and found that the majority of pension savers prefer the flexibility of staying contracted-out, even though contracting-in is more likely to maximise their savings. Despite pointing out that customers contracting back in to the State Second Pension (S2P) are more likely to maximise their pension, early responses to their mailing show 83% prefer to stay contracted-out.

Out of 3,193 responses received, Legal & General have revealed 2,644 customers want to stay opted-out, as the insurer points out this gives members more flexibility, such as being able to take benefits, including tax-free cash earlier than the State Pension Age.

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The responses showing a preference for contracting-out follows the proposed pension reform changes to the way contracting-out will work in the future, with contracting-out for occupational pension schemes set to be abolished from 2012.

In addition, although protected rights, the part of the pension fund accrued through contracting-out, currently have certain conditions attached to the way they are invested and used as income, the Department for Work and Pensions (DWP) has recently launched a consultation into the benefits of removing these restrictions. All in all this appears to add up to we still don't trust the government with our pensions.

*December 2006*

## **Property Investing**

According to figures from the Association of British Insurers over £2.4 billion flowed into property funds in the first nine months of this year, accounting for 21 per cent of net retail sales.

Clearly there is nothing wrong with adding a bit of property to create a balanced portfolio; however the figures suggest that investors are chasing some of the double digit returns that have been produced over the last three years. There are currently a plethora of new funds, after a slice of this money, being launched onto the market and trading off the back of some of these performance figures

Prime property investments have secure income flows and are typically owned by the larger property funds. Many of the smaller funds being launched will not be big enough to buy the prime offices that typically dominate these funds and many experts are predicting a rockier time for non-prime commercial property, especially if interest rates rise further.

If the market turns, as it surely will, the first pieces of commercial property to suffer the cold blow of recession will surely be the smaller less desirable properties typically in the hands of the smaller funds. It looks as if the bigger funds will be able to ride out this recession, but are new investors aware of all the implications of property investing?

*November 2006*

## **ISA's permanent**

The Government's bid to encourage a savings culture by making ISAs a permanent savings vehicle should be largely welcomed.

However, some industry commentators are disappointed that the Government did not go further in its reforms, which included the removal of the maxi/mini distinction, the inclusion of PEPs into the ISA wrapper and the rollover of existing savings products, such as the child trust fund, into ISAs on maturity.

Whilst we've come a long way from the introduction of ISA's and the confusion associated with mini/ maxi ISA's, cash, stocks and shares and life assurance ISA's. Clearly the government has not gone far enough. Surely we can be allowed a tax shelter for our savings of whatever description and an annual allowance that increases each year (if indexed from inception it would now be at over £8,000.)

If the Government is serious about their intention to foster a long-term savings mentality in the British public, then they need to make it worthwhile for them to do so. For this to be effective it will be essential that the commitment is shared by all the main political parties.

*November 2006*

## **Government maladministration**

The government has continued to deny accusations of maladministration in its response to a report by the Public Administration Select Committee (PASC).

In July, the PASC published the results of its inquiry into the government's rejection of the Parliamentary Ombudsman's report "Trusting in the Pensions Promise", in which it agreed with the Ombudsman's findings saying the government's rejection had been -at best naïve or at worst misleading. This report criticised the government for portraying occupational pension schemes as risk free investments when they were clearly anything but.

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However, the Department for Work and Pensions (DWP) in its 12-page response still refuses to accept the claims of maladministration, although James Purnell, Minister for Pensions Reform, says it agrees there should be a significant package of support which is why it has committed an additional £2bn to the Financial Assistance Scheme (FAS), which will help about 40,000 people.

The report argues the government was not responsible for the schemes failing and did not underwrite the promises, as although it did prescribe the overall legal framework, it was the trustees who were required to make decisions based on the specific circumstances of their scheme and it was the employers' responsibility to meet the promises they made to their employees.

It also says while it has further explored the alternatives to public funding, it has "reluctantly" concluded none of the alternatives such as unclaimed assets, contributions from the financial industry, existing scheme assets and the option not to annuitise are not practicable.

Government officials argue the disagreement between the government and the PASC is not over whether there should be support for these pensioners, but over how much support should be provided, with the government concluding the FAS, with its proposed extensions, and the option of 'deemed buy back' are the best solution.

The DWP says 'deemed buy back' allows eligible people who have incurred losses to be fully or partly reinstated into the State Second Pension (S2P) or State Earnings Related Pension Scheme (SERPS), for the period they were contracted out into an underfunded occupational scheme.

The report states: The government has given long and careful consideration to the Committee's report. It maintains its position- the information issued was not misleading and the government is not responsible for the losses experienced by the individuals affected. The government believes FAS offers significant support to those who are closest to retirement age and represents the appropriate level of assistance that should be expected of the taxpayer.

So there we have it, the Government is not at fault-despite two hugely important government watchdogs laying the blame squarely at the feet of this administration. Even though the government has put in place a small rescue package it still smells like trying to settle out of court to prevent possible court action.

*November 2006*

## **Saving for a brighter tomorrow?**

Regular savers in the Farepak scheme who typically saved throughout the year in order to pay for a family Christmas have been terribly let down by the collapse of the company and are now facing a bleak Christmas. Alternatively they face borrowing money, at probably extortionate interest rates, in order to fund their Christmas plans. It is estimated that there are potentially up to 150,000 families affected, with an average family losing up to £400, although some have lost as much as £2,000.

This is clearly a massive tragedy for those families affected and the directors of the company should surely be held to account in some way. Our politicians have not been slow to make political capital out of someone else's misery with one politician calling it a 'national emergency'!

I have a huge amount of sympathy with individuals, many of whom could ill afford to lose their savings, who have very little time to make good their losses. One can only applaud those- who despite being on low incomes and clearly difficult home circumstances were being responsible by trying to save regularly for the future, even if the future was only as far away as the next Christmas.

However I am bewildered by the silence of our 'honourable friends' over the issue of those workers who have lost their pensions when their schemes became insolvent. This was often after a lifetime of saving. Financial loss is unpalatable no matter what scale it is on, but the pension losses when compared with those at Farepak are vast in comparison and the Government's unwillingness to act for those with 20 unhappy Christmases ahead is the more shameless thing.

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## Asset allocation

Asset allocation is the buzz phrase among investment intermediaries these days, as the emphasis has shifted towards ensuring clients have a balanced portfolio to protect against capital and investment risk.

At present, the skill set requires intermediaries know the detailed specifics of every investment fund offered by a company, so they may select the most appropriate one to the client's asset allocation needs – no small task given the 2000 funds available in the UK market.

In order to highlight the dilemma many investment intermediaries face: funds are selected to increase portfolio diversification, but many funds – even where they apparently follow different stock selection methods and criteria – can be found to expose the client to the same types of stocks and sectors, such as energy stocks because this is where many fund managers currently see the returns potential.

Analysis of stocks held within a fund could for example show that funds were overweight in energy and manufacturing stocks, so any downturn could affect several of a client's investments, even where it is thought the portfolio is well-diversified, and much in the same way as they were affected by the tech stocks bubble.

It's a focus which Fidelity, Britain's largest fund management group, has now also picked up on- as its research points out the UK stock market has seen activity concentrate on three key areas in the last 10 years – energy, banks and pharmaceuticals.

Whereas in 1996, less than a third (31%) of the UK market was concentrated in the three largest sectors, it peaked in 2002 when the top three sectors (energy, banks, pharmaceuticals) accounted for half of the market's total value and today the same three sectors represent 47% of the UK index.

This means that portfolio performance will largely reflect what is happening in these areas. By taking investment further afield this reliance on particular sectors is diminished. It is important for IFAs to understand the asset allocation, such as how much a client has in equities and bonds versus other assets, and how much is in small companies, for example.

There is some argument towards selecting investments based on an investment company's sector specialisation, in order to ensure asset allocation and fund selections are appropriate and clients are not overexposed to one particular sector of the investment market, IFAs have to keep one eye on where a fund is investing.

The concept of investing a client's assets with fund managers who only have specialist sector knowledge seems an interesting idea, as it might help to limit a client's exposure to sector consolidation and overexposure to markets which could suddenly turn.

*November 2006*

## Alternatively Secured Pension

If the government decides to abolish or alter alternatively secured pensions in the pre-Budget Report, pensioners will be left with no choice but annuities past the age of 75, but are these still a viable proposition?

Some parts of the industry believe annuities are particularly poor value before the age of 75 because of the decline of mortality cross subsidy, where an annuity holder dies and the remainder of the fund is distributed among other annuity holders.

However A-Day changes which allow trivial commutation of pension funds up to £15,000 could weaken the mortality cross subsidy, as in general those with smaller funds are likely to be less well off, and those from poorer backgrounds tend to have a shorter life expectancy.

By removing smaller funds from the annuity pool, the shorter lives of those people are no longer subsidising the longer lives of those with larger funds who are likely to live longer, the 'healthy wealthy'.

As a result, as annuities are simply a package of mortality cross subsidy and fixed-interest investments, such as gilts and corporate bonds, if mortality cross-subsidy disappears, then all the annuitant is buying up until the age of 75 is a package of fixed interest investments.

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This package is only likely to suit the risk averse or those who need a certain guaranteed level of income. The remainder of the population, and their advisers, ought to be asking themselves if they could obtain a better return by opting for income drawdown and investing in other asset classes.

A lack of advice at the point of realising one's pension pot means people may not be aware of the option to commute their pension or to shop around for the best annuity using the open market option (OMO).

Annuities depend on who you are, and for some they are absolutely fantastic as they provide a guaranteed income for life, and they are the last real guarantee left in pensions, but in passing over all the mortality and investment risk, you also lose all control and can't react to events, which is what some people dislike about annuities.

At the moment it is not unreasonable to expect a large proportion of the population to live until they are 90, which if you retire at 65 is almost 30 years in retirement; this is an awfully long time to sign yourself up to one product, a kind of forced "annuiticide". We need to look at other ways of developing this market so people have more choice.

*November 2006*

## **With profits of the future**

As the world entered the new millennium, we were all braced for the Y2K problem.

With hindsight, perhaps we focused too much management time and excess column inches on our computers, when in fact the real problem was the equity market bubble that was about to burst. Since then, tumbling equity markets (2000-03) have caused severe problems for the financial services industry and investment products that looked ideal in rising markets, have shown disturbing flaws under the pressure of falling returns.

Most notably with profits contracts have had their flaws exposed. (With profits is the type of investment that underpins many endowment, pension and investment bond contracts.) We saw that during the previous decade, investors built their portfolios around a core of with-profit investments in the belief that they would produce steady incremental returns over time. However, the collapse in equities during 2000-03 caused with-profit investments to slash annual and terminal bonuses and raise exit penalties (via MVRs) to protect remaining reserves. These problems have been made even more painful as it is exactly in conditions such as these that these investors were counting on smoothing to protect them from the worst of market falls.

With-profits had met client needs perfectly. The product promised that annual bonuses would compound returns with the potential of an additional windfall on maturity from the granting of a terminal bonus – steady returns with upside potential. They seemed to offer little risk and advertised high headline rates of returns to tempt investors. The problem was not the promise but the reality. It is now clear that the high headline rates of return, the history of significant terminal bonuses and smoothed returns were difficult, if not impossible, to repeat. Early gains were provided by the magic combination of rising equity markets and relatively small numbers of policyholders. Strong equity performance meant fund returns were greater than promised, creating a pool of assets that funded better than expected returns, paid via higher terminal bonus levels. That meant, like most things in life, the early investors did disproportionately well and, as the crowd arrived, the potential for excess returns eroded.

Smoothing has proven particularly difficult in a falling equity market. Free Asset ratios (a measure of the fund's net asset position and ability to pay terminal bonuses) of the key market participants need to be rebuilt after three years of falling equity markets. That will restrict potential returns to investors over the coming years. Many funds are skewed heavily toward fixed interest, more because of with-profit providers' need to maintain solvency ratios rather than independent investment rationale.

The theory – construct well-balanced portfolios tailored to protect and enhance wealth – remains sound, but may be better provided by a new generation of products. The Treasury proposed the Cautious Managed fund as the champion of the 'cautious' product suite, supported by the Investment Managers Association. Funds with the 'cautious' tag limit the magnitude of equity exposure managers are allowed to take to 60%, which provides a good compromise between more aggressive balanced managed funds and defensive managed funds.

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A Cautious Managed fund is thus a transparent product that offers the diversification that most investors seek. The right manager can provide active bond and equity management and, crucially, asset allocation that fit market conditions. Falling equity markets have punished complex products that have too many working parts. Simple products, flexible enough to function even in tough conditions are likely to offer better long-term rewards and should form the core of an investor's portfolio.

October 2006

## Raising ISA limits

Isa limits should be increased in line with inflation "to offer fair value to investors" who invest the full amount allowed each year.

Figures compiled by the Alliance Trust suggest those investors who are investing up to 7,000 in their maxi ISAs are essentially losing out on £6,573 in tax breaks between their launch and 2010, as the government has not raised the maximum investment limit since they were introduced in 1999.

Its research centre argues Isa limits would be 19% higher by 2010 than current levels and would reach £8,310 by March 2010, if the limit had been raised in line with official consumer price index inflation.

However, as the Treasury has not raised it and is not expected to raise the limit until 2010, the Alliance Trust suggests investors are already missing out on the chance to invest up to £7,677 this year – a move which it suggests is unhelpful when the government is attempting to encourage people to invest more for their retirement.

According to the AT, over 16 million people – more than one in three adults – have an Isa and have saved over £190bn since their launch in 1999.

The failure of this government to increase the ISA limit in line with inflation reflects its attitude in general to savings and is in reality another form of stealth tax.

October 2006

## Pensions Helpline

The Pensions Advisory Service is launching a dedicated national pensions helpline for small business owners and the self-employed.

Designed to run for a six week period from October 2nd, the new helpline - 0845 602 7021 - will be open Monday to Friday from 9am to 5pm, and TPAS says there will also be two accompanying booklets available, one for the self employed and one for small business owners.

TPAS says the shortfall in pension provision is particularly acute among those people who fall into one of these two areas, as surveys by the Office for National Statistics (ONS) reveal the number of self-employed people paying into a pension fell from 64% to 49% between 1998 and 2004.

TPAS says the figures suggest more than half of self-employed women lack private pension provision of any kind, and unlike those who have access to employer contributions, these groups of people are entirely reliant on their own resources for making plans to save for retirement.

And it warns as well as only being able to rely on themselves for contributions, the self-employed people have less access to state pension provision, but most are unaware of where to look for information on their retirement options.

October 2006

## National Pension Savings Scheme

Government ministers are proposing that an 8% contribution to a pension will provide a good bedrock for our future national pension wealth. The Personal Accounts (aka The National Pension Savings Scheme or NPSS) are proposed to be a sort of occupational pension scheme for the millions of employees in the UK today who do not already enjoy employer-sponsored pension membership. About half the employees in today's workforce get a pension contribution from their employer, whereas the other half (of about 12 million people) don't.

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If these Personal Accounts ever get off the ground people without the benefit of an employer contribution towards their pension already will be swept into them. They won't have to stay in though. If anyone doesn't like the idea of saving for a pension they can opt out of the scheme. To stay out they'll have to keep opting-out however, as there'll be kind of a sweep-up every three years or so to get everybody in if possible.

Being swept-up like this and staying in the scheme of personal accounts will cost employees 4% of their salary for the privilege; or at least that's what everyone seems to think. But it isn't proposed to be all of someone's earnings that will count as being pensionable under this proposed scheme. The first £5,044.52 of employees' earnings (up to an upper earnings limit of £33,540) will not count.

The same is true of the compulsory employer contribution of 3% and the 1% payment from the taxman that kicks-in where people decide to stay in the scheme. The 4% employee contribution, the 3% employer contribution and the 1% in tax relief add up to a total contribution of 8% for people who join the scheme. But it's not 8% of their actual earnings. It's 8% of their earnings less £5,000 or so and that makes a hell of a lot of difference for the people on lower earnings who are the supposed beneficiaries of these so-called reforms.

For someone on average annual earnings of around £25,000, the total percentage contribution is about 6.4% and not 8% of earnings. For those on annual earnings of £15,000 it is about 5.3% in total and for people earning £10,000 it is just a 4% total contribution.

This seems to me to be a little dim witted to say the least. These personal accounts are supposedly being designed with medium to low earners in mind, but the less you earn the lower the percentage of your earnings that will be invested in your personal account. That will surely mean that many low-earners will simply end up with relatively low pension pots compared to higher earners.

Someone earning say £12,000 a year would have 8% of about £7,000 paid into their personal account in a year. That's £560, or 4.6% of the person's earnings. At that rate they could be saving for more than twenty years before they had any reasonable hopes of getting a pot of pension savings above what is known as the trivial commutation limit. This is the limit below which the government will allow individuals to 'cash in' their pension for a one off lump sum.

How many people saving at that level will do anything other than surrender their pension pots for cash under the triviality rules decades hence? Most of them I would think if our present system of means-tested pension credits are maintained. I just don't see the point of this at all...

*October 2006*

## **More Interest Rate Rises Coming**

August's interest rate rise has done nothing to dampen house price inflation if the latest figures released by Nationwide Building Society are to be believed. The lender says house prices increased by 1.3% in September up from 0.8% a month earlier, bringing the annual rate to 8.2%.

Nationwide says the average UK house price has risen from £167,721 last month to £169,413 now and predicts a further interest rate rise in November as a result. The price of a typical house is now almost £13,000 more than at this time last year and the equivalent of a rise of more than £35 per day over the last 12 months.

Added to this is the fact buyer interest remains strong with estate agents continuing to report a high number of enquiries. But fewer sellers willing to put their properties on the market is adding to already squeezed supply, which is also contributing to the increase in house prices. Nationwide warns high prices and little room for price negotiation could mean many new enquiries come to nothing, but up until now new buyers have been both willing and the able to cope with affordability issues.

The market is also being aided by strong buy-to-let landlord demand. Nationwide says around two-thirds of existing landlords say have plans to extend their portfolios and many have access to finance from gearing their existing portfolios.

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Nationwide expects interest rates to be increased again in November, but there is little chance that mortgage rates will increase to anywhere near 7% as a result. Increases in interest rates do affect expectations about future house price growth and hence house purchase decisions.

Lower house price growth means less of a cushion for buyers, especially those on interest only loans, and will make them more reluctant to stretch themselves. This may signal that demand will now begin to cool, particularly as other costs such as utility bills increase sharply.

*October 2006*

## **More FTBs landed with stamp duty bill**

The proportion of first-time buyers paying stamp duty has leapt from 48% to 56% in the space of just a year, reveal the latest figures from the Council of Mortgage Lenders.

The CML says only 15% of home movers escaped the tax in August, compared with 21% a year earlier.

It claims first-time buyers are continuing to struggle in the current market and accounted for just 35% of the total number of house purchase loans in August - their lowest level since the survey began in April 2005.

More encouragingly, their numbers have been rising in absolute terms - and at 38,100 were actually more robust than the 34,900 in August last year. The age of a typical first-time buyer has also remained consistent at 29 for the past year.

But affordability worsened for first-time buyers in August as while the median first-time buyer mortgage remained at 90% of the property value, typical income multiples rose to 3.27, up from 3.24 in July and 3.08 in August last year.

The proportion of income first-time buyers spent on their mortgage interest payments also rose to 17.1%, the highest level since February 2005, and up from 16.7% in July and 16.5% in August last year. And the average size of a first-time buyer loan increased at twice the rate of the increase in average first-time buyer income.

*October 2006*

## **The never ending mortgage**

The launch last week of what has been quickly touted as the never-ending or inter-generational mortgage by Kent Reliance Building Society was always likely to provoke debate.

Borrowers, in theory, never have to pay off the original loan and with house prices continuing to rise beyond the amounts borrowed, such a mortgage would only become a liability to the lender if house prices were to go backwards - something most people seem to accept is extremely unlikely in the long-term.

Thanks to the increase in property values inheritance tax has become a real issue for many homeowners as well, with Kent Reliance claiming one of the attractions of its new product is the possibility the mortgage can be passed to the beneficiaries of an estate, thereby reducing the IHT liability.

At the same time, for such mortgages to become commonplace a change of culture among the house buying public in the UK might be required and issues over retirement income might ensure such a product remains very much in its own niche.

The first-time buyer market, which has for years been the main driving force behind property sales in the UK as people move up the property ladder, could disappear were never-ending mortgages to become commonplace.

But such a vacuum would have to be filled, with the most likely reality being a massive boom in the buy-to-let market.

Existing homeowners might inherit their parents home and choose to keep the property - and the mortgage - as a buy-to-let investment while first-time buyers might hold off buying a property until much later in life when they inherit their parent's estate either choosing to pay off the mortgage on the property, and taking the equity to buy their own home or simply moving into the property themselves.

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Whether this is good for the consumer, however, is somewhat less clear but with house price growth outstripping wage inflation year on year never-ending mortgages might become a necessity.

Property prices in both Switzerland and Japan, where 50 year and longer mortgages are commonplace, have become so high it is almost impossible to ever really own your own property in your lifetime.

But the next generation, already resigned to working longer to secure a comfortable retirement, may find the concept more appealing. For the moment, pensions are likely to keep the growth of the never-ending mortgage market in check.

*September 2006*

## **National Pension Savings Scheme**

In a recent survey conducted by The Pensions Advisory Service more than 70% of consumers believe they will need advice on whether to opt-in or out of the new personal accounts.

In addition, the survey of more than 1,300 callers to The Pensions Advisory Service helpline reveals 79% of consumers say they will need advice on the best way to invest their contributions, while 76% would want advice on whether they are paying enough.

But despite the fact most proposed models - including those by the Association of British Insurers and National Association of Pension Funds - have cut out the advice process, around 78% of those surveyed are in favour of the new system of personal accounts, with almost three-quarters supporting the idea of automatic enrolment.

Although just under half of the respondents believe the government should go further and make membership to the scheme compulsory for employees, while 64% say they would trust the government to run the scheme rather than insurance companies or employers, which only received 36% of the vote.

It seems that despite government attempts to reduce the costs of this new scheme, most members of the public would still prefer to have access to advice concerning their pension planning and must be factored in. Ultimately the success or otherwise of the new system may depend upon it.

Meanwhile on the issue of general pension reform, just over half of the respondents accepted the state pension age would have to increase in order to pay for higher pensions.

But of the 41% who are against the move, 54% say they just want the system left as it is, while 46% say they are prepared to pay more for a better pension provided they can still retire at the current pension age.

*September 2006*

## **National Pension Savings Scheme**

Labour MP Frank Field, the former minister for welfare reform who had been charged with "thinking the unthinkable" back in 1997 when this government came to power, claims the government's proposed pension reforms "are not so much preposterous, as positively dangerous".

He says on top of inadequate reform to the basic state pensions, the government is placing another complicated tier of pensions provision in the form of personal accounts.

He warns that all the vibes are that there will be at least three funds paying different returns. If the government goes ahead with various schemes, at any one time, one of the funds will outperform the others. Punters will claim they have been robbed and the government will open itself up to huge liabilities.

In addition, he points out everyone in the pensions industry agrees the basic state pension needs to be reformed before any other changes can take place, and the first step "must be to ensure everyone receives a minimum pension lifting them off means-testing".

But he warns: under the government's proposals, this will never be met. The value of the basic state pension, even with contributions from a reformed second state pension, will not ensure all contributors gain an income above means-tested assistance.

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And Field says the proposals mean the government will never be able to claim that it 'pays to save', an aim which he says should be the first and major goal of any serious pension reform.

He also urges the pensions industry to join him in speaking out against the reforms, in speaking to numerous companies whose business is selling pensions, without exception they all agree the government's proposals are ludicrous. Which company chairman is going to be brave enough to tell the king he has no clothes – or at least no clothes worth wearing?

We have been waiting over 9 years for the government to get to grips with reforming our pension schemes and it appears as if there latest proposals could be nothing short of disastrous.

*September 2006*

## **Consumers unaware of Inheritance Tax**

Consumers are thought to be underestimating their inheritance tax ( IHT ) risk as research suggests only 2% have planned ahead to avoid charges on their estate.

Research of 1,000 people, commissioned by Bradford & Bingley, suggests 97% of consumers are aware of inheritance tax, and four out of five state they understand what constitutes a person's estate. Yet only 2% says they have sought advice about the issue.

The survey suggests ignorance of the IHT issue is widespread as over a quarter of respondents wrongly assumed they can pay any IHT bill from their inheritance, while nearly half don't know the current rate of IHT is 40%.

The Bradford & Bingley says rising house prices are taking more and more people near to the IHT threshold, but too many people are severely underestimating their wealth, with 83% believe they won't have to pay IHT because their estate will not be worth enough to tip them over the current £285,000 threshold.

In addition, one in five of those who plan to leave an inheritance think they will leave an inheritance of £100,000 or less. But Bradford & Bingley says as 90% of people plan to leave their house and the average house price now stands at £199,183, not including savings & investments, cars and other possessions, it is clear many people are seriously underestimating their wealth and the total taxable value of their estate.

As house prices have rocketed over the past few years, the value of the average family's home alone is now close to, or over, the IHT threshold. While most people understand what constitutes an estate, many are still unaware how much their estate will be worth and more importantly, how to mitigate against a hefty tax bill on death, as financial planning seems low on the list of priorities.

This research shows only 2% say they will not be liable to pay IHT because they have sought advice and planned sufficiently to avoid it, while 63% admit to taking no advice at all. In addition, one in ten incorrectly think assets covered in a will are not liable for IHT.

This unwillingness to plan for tomorrow has meant that today the 'man on the street' is increasingly leaving their beneficiaries a tax bill rather than a healthy inheritance, largely because they did not seek advice soon enough.

*September 2006*

## **Pensions**

The actuarial profession has finally decided to throw in the towel as far as predicting how long we're likely to live goes. The Continuous Mortality Investigation (CMI) that has been underway now for over eighty years has been used by insurers and employers for most of the last century to work out how much money companies need to put aside to meet their pension obligations and to price annuities and other life insurance products. But according to some the numbers have been all over the place recently and many cite the differences between two recent sets of tables from the investigation that show an improvement of 29% in the mortality rates for 65 year-old men. The news is the actuaries seem to be saying it's getting too difficult to predict how long human beings may live. Indeed, they have just

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announced that after this latest release of CMI stats they feel there is so much room for error that they think it's no longer sensible to issue a single set of predictions!

Another report by an actuarial firm finds through a survey of FTSE100 companies that their pension deficits have not reduced as the stock market has recovered. The conclusion seems to be that the new legislation looks to have secured existing benefits for employees, but brought on more scheme closures as companies channel money into funding their deficits. It appears as if the pensions medicine may have cured the disease, but killed the patient.

And finally, I've been going on about the infamous £5 Billion tax raid on pension schemes Gordon Brown has been making since 1997 well it seems to have had the perverse effect of making so many companies drop extra cash into their pension schemes last year that they are reporting much lower profits as a result. Evidently the resulting loss in tax revenues could amount to £5 Billion. Nice one Gordon!

*August 2006*

## **Government in trouble over pension assistance**

A report from the Public Administration Select Committee (PASC) has sided with the Parliamentary Ombudsman over claims of government maladministration. The PASC says the government's behaviour in rejecting the findings of the ombudsman's report: "Trusting in the Pensions Promise", is being at best naïve, and at worst misleading.

It says having conducted its own investigations, it agrees with the findings of the Ombudsman that maladministration occurred as government information about pensions was deficient and reasonable people would have been misled.

In addition, it dismissed the claims by the government suggesting the leaflets in question made it clear people needed to take professional advice, giving examples of the wording used which emphasised the cost of professional advice, such as- find out how you will be charged and how this will affect your investment.

The committee says: The references [the government] made to independent financial advice did not suggest this was desirable, let alone necessary, and were cast in a way which would discourage rather than encourage the reader to seek it. As a result, the report suggests the government should arrange more generous recompense than that provided by the Financial Assistance Scheme, and should do so speedily.

It also points out the government should have considered the ombudsman's recommendations properly, rather than immediately assuming they would place large burdens on the public purse.

The PASC has released a damning verdict and effectively threatened a parliamentary rebellion if Ministers do not change their stance on this issue, with recommendations to urgently put in place a proper compensation scheme.

This is another unequivocal indictment of the government's handling of the occupational pensions scandal. The committee is clearly outraged by what has happened and appears determined not to let the government get away with it.

And now the report has been published and despite the government's refusal to waive legal costs should they fail, the campaigners plan to proceed with the review of the government's unprecedented, unreasonable and unlawful response to its own ombudsman. One can only hope the government will agree to remedy this injustice without needing to go to court.

Even this government must now admit it has made a mistake and organise proper compensation rather than persisting with brazen attempts to deny the obvious. This whole situation is continuing to undermine confidence in pensions across the UK.

*August 2006*

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## Home Information Packs

Home Information Packs (HIP) come into force next year and will become a compulsory part of all housing transactions however Hip's could slash GDP by £5.7bn, according to independent research recently published.

GMAC-RFC, one of the country's leading specialist lenders, presented the research it has commissioned to all three major political parties, various other public policymakers and industry figures on both sides of the Hips debate.

The effect of a 25 per cent and 10 per cent drop in housing transactions was considered. In the 25 per cent scenario, unemployment would rise by 93,000, GDP fall by 0.5 per cent or £5.7bn, consumer spending falls by 0.7 per cent or £5.8bn and net revenue to the Government falls by 0.9 per cent or £5.6bn.

In the 10 per cent scenario, unemployment rises by 42,000, GDP falls by 0.2 per cent or £2.6bn, consumer spending falls by 0.3 per cent or £2.5bn, net revenue to the Government falls by 0.4 per cent or £3.2bn.

According to a spokesman from GMAC-RFC although there has been a lot of debate about HIPs, no modeling has been undertaken in the public domain to test the economic impact of HIPs if there were to be a fall in housing transactions. This work fills that gap and frames the economic risks.

The results reinforce the belief that a paid-for Hips dry run should be conducted so that the issue of consumer reaction to this new cost can be tested and taken into account prior to implementation.

July 2006

### Government to raid dormant accounts!

The Government has finally unveiled the full extent of its plans to raid dormant accounts. The Commission on Unclaimed Assets, an independent body set up to consider the best use of funds lying in dormant accounts, published a 10-page consultation paper last week.

In the paper, the commission set out its proposal to establish a Social Investment Bank, funded by unclaimed assets, which would distribute the funds to various community organisations. The Commission called for sustained and ambitious action to reconnect disadvantaged and marginalised communities with enterprise and wealth creation.

It said that the release of unclaimed assets provides an opportunity to support and boost what it describes as the third sector, that is, groups that provide services and support for disenfranchised communities. These communities were identified as often lacking access to mainstream financial services, such as banking and affordable credit. In particular, the Commission criticised the lack of free face-to-face debt advice, meaning individuals cannot escape a cycle of debt and deprivation.

The report found that better financial inclusion was essential for building sustainable and wealth-creating communities. Projects in this area were earmarked for some of the dormant account cash.

The commission proposed that the capital from unclaimed assets will provide the equity to establish the Social Investment Bank. Leveraging this equity should potentially multiply the investment and importantly, attract private investment into the sector, according to the commission. A range of financial tools were suggested to achieve this, including using the bank as a guarantor for securities or social organisations, providing grants and equity for social enterprises and offering affordable loans.

Ultimately, the Commission said the Bank should be used to grow new and existing socially responsible groups and in the promotion of social investment. The Commission argued this should have a positive impact on the financial services industry, the economy and the financial services industry as a whole.

All of this is very laudable and is no doubt a start to helping the disenfranchised members of the community become stakeholders in the community. However as yet there is insufficient detail to know neither how the government proposes to take the money out of dormant accounts nor how much this might amount to.

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The banks and building societies have yet to respond to these proposals and they typically pay negligible interest on these accounts, thereby boosting their own profits. So if this money disappears and profits drop does this mean interest on 'live' accounts will drop or will interest rates on mortgages increase so that banks maintain their profitability? We need answers.

July 2006

## Annuities

If you have a money purchase pension scheme, you can use the cash you have saved to buy an annuity. This effectively "unlocks" the money that you have saved in your pension fund to provide an income in retirement. The amount you get will depend on your age, sex and medical history - and the current annuity rate.

The problem facing people retiring now is the poor annuity rate on offer.

It has virtually halved over the last ten years. The rate is crucial because it determines how much income a person will receive for the rest of their life.

Annuity providers invest largely in ultra-safe government stock; the rates of return available from this type of investment are closely linked to the Bank of England base interest rate.

The Bank of England base rate is currently at a very low level. This means the return on government stock is poor and annuity rates on offer to people retiring now are at the lowest level for a generation.

In the current low annuity rate climate, many people are having to revise their retirement plans. When retirement age is reached, the pension scheme manager will write outlining the annuity rate that they currently offer.

However, pension scheme members have the right to shop around for the best annuity rate, under an "open market" option - and can often get a better deal by doing so.

Members of personal pensions and stakeholder schemes can also normally take up to 25% of their fund tax-free

When you take your tax-free lump sum you usually have to buy an annuity with the rest of your fund. However since 6 April 2006, pension savers have been able to ignore the option to buy an annuity altogether.

Instead, people can now drawdown an income direct from their pension fund; leaving their pension cash invested. However, any money left in their pension fund on death could be liable to an Inheritance Tax (IHT) charge.

July 2006

## Alternatively Secured Pension under threat?

One of the undoubted successes of the 'A' Day pension changes has been the introduction of an Alternatively Secured Pension. ASP allows individuals the option of not buying an annuity at age 75. (This had originally been introduced to get round the religious objections of certain members of the community, the Christian Brethren who have a religious objection to the pooling effects of annuity purchase, but has come to be accepted by all.) Instead they can leave their pension invested, draw an income and allow the bulk of the fund to pass down a generation subject to a tax charge. However the Government seems to be backtracking on the promises it made just 3 months ago.

Ed Balls, Economic Secretary to the Treasury recently said: "it was always our intention that the [ASP] rules would apply in the specific and narrow case of individuals with such principled religious objections such as the Christian Brethren... We have always made it clear that we shall not allow those concessions to be taken up more broadly to get round the annuity rules. This is not a mainstream product and it must not become a tax avoidance measure. We shall not be going down that road."

However as the rules now stand ASP is not specifically restricted to those with religious objections, and since A-Day a number of people have already entered into ASP contracts after the age of 75 instead of buying an annuity, despite the threat of Inheritance Tax (IHT) charges.

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The introduction of ASP resulting in wider flexibility and choice has helped to re-stimulate the demand for pensions and was one of the most important A-Day changes, although it now seems ASP could be subject to a review over possible misuse.

However if the government now tampers with the new regime by restricting ASP only to those with a 'religious objection to annuitisation', it will damage confidence and could destroy what is becoming a real opportunity to encourage future contributions.

What about the practicalities...

How can they police people's religious beliefs? And who is to say who has an objection to annuity pooling? This is a ludicrous state of affairs and will undoubtedly be subject to legal challenge.

ASP offers a solution for a great many people who require an alternative to an annuity; however ASP is not ideal for everyone. But there has been little opposition to the idea of IHT on ASP funds, as announced in the March Budget, as this seems to have been accepted as the price to pay for the extra flexibility.

The idea ASP could just be available for those of particular religious beliefs is not defensible in today's market, from my experience people are attracted to ASP because of the flexibility and the perceived poor value of annuities.

In many cases people attracted to ASP are not those with massive pension funds looking to avoid tax, instead they are normal people who just want to exercise some control over their retirement income and benefits for their families when they die.

July 2006

## 1997 Removal of tax relief on pensions

Way back in 1997 this government removed the tax relief pension funds were capable of reclaiming on dividends from their shareholdings. This move has been criticised ever since as the start of the demise of the British pension industry.

The Treasury has recently appealed a ruling by the independent Information Commissioner which currently forces it to reveal detailed information about the effects on pension schemes of the removal of tax relief on dividends in 1997.

Why is Gordon Brown being so secretive? Millions of people have been affected by this decision and deserve to know whether Brown knew in advance the damage this was going to cause to the nation's pensions. What has he got to hide?

The independent Information Commissioner ruled the Treasury had failed to comply with section 1 of the Freedom of Information Act, by refusing to disclose information relating to part of the abolition of Advanced Corporation Tax (ACT).

The move by the government in 1997 denied pension funds the ability to claim back the amount of any tax credits received on dividends, from the Inland Revenue.

In February last year, a request was made for the government to disclose information on any estimates of the losses the move would cause pension schemes, what consideration had been given to the impact on pension schemes, whether a phased approach had been considered and what the long-term impact on occupational pension schemes would be.

However, the Treasury refused the request on the basis that publicising the advice given to ministers could damage future decision-making, and would damage the confidence of advisers and ministers in the confidentiality of the Budget process.

After a ten month investigation, the Information Commission ruled the Treasury could not be exempted from the request and gave it until 5 July to appeal to the Information Tribunal, or until 7 July to comply with the request and release the four papers in question.

But on the final day of the deadline, the Treasury submitted an appeal against the ruling, saying it is now up to the Tribunal to decide whether or not to uphold the ruling by the Commissioner.

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The decision to appeal the ruling comes as the government has made attempts to limit its potential losses if it loses two ongoing court battles about its attitude to UK pension schemes and compensation.

In the case against the unions Amicus and Community - who represent workers from Allied Steel & Wire (AS&W) - which is currently awaiting a decision from the European Court of Justice.

And while the Pension Action Group (PAG) await the result of the inquiry by the Public Administration Select Committee (PASC) before continuing its judicial review into the government's dismissal of the Parliamentary Ombudsman's report the government has refused to waive its costs if it wins the review.

This is surely a way of scaring people away from legal action with the threat of large legal costs.

All this leads me to wonder on whose behalf the government is acting.

*July 2006*

## **Treasury Climb-down**

The Treasury has bowed to the immense pressure it has been under and effected a humiliating climb-down on the proposed budget changes to trust law that were proposed in this year's budget.

The concession means that flexible life interest trusts, commonly set up for the benefit of the surviving spouse who receives the income from the trust, with the capital going to the children or grandchildren will not now have to be rewritten because the 'spousal exemption' has been restored. Had the proposed Budget changes been implemented, there would have been an inheritance tax penalty for leaving assets in this way.

There are concessions too for assets left in trusts for minor children, typically where grandparents leave assets for minors, to escape an IHT charge the trusts would have had to allow capital to pass outright to beneficiaries at the age of 18. If the assets passed to the beneficiary when they were older, the budget proposal was to levy a 20% charge on assets going into the trust and a 6% charge on the value of the trust every 10th anniversary thereafter.

The modified proposals now allow families to create trusts in favour of children which extend up to age 25, there will still be a tax charge of up to 4.2% on the value of the assets, but clearly some families may well see this as a price worth paying.

Whilst this is a welcome climb-down on trusts set up on death, there is still likely to be a tax charge on trusts established during the lifetime of individuals for assets in excess of the £285,000 nil rate band.

These proposed changes were potentially damaging to large numbers of individuals in this country, hoping to reduce the IHT burden that their estates would suffer.

The Treasury is clearly targeting this area of tax avoidance as it looks to increase its revenue streams.

The amount of money raised by the Treasury from IHT has nearly doubled in the past eight years. In 1997-98 some 18,000 estates were liable to IHT and paid a total of £1.7 billion in tax. For the current 2005-06 year an estimated 37,000 estates will be liable to IHT and the Treasury will collect £3.2 billion.

*June 2006*

## **Stealth tax of the future?**

Hidden in the small print in the Government white paper is the proposal that anyone with a 30 year National Insurance contribution record will be entitled to a full state pension. So in theory anyone entering the world of work at age 21 will have a full NI contribution history by the time they reach 51.

This contrasts sharply with current requirements of a 44 year contribution history for a man and 39 years for a woman in order to gain a full entitlement. Surely this has to be a good thing.

However if someone has acquired a full entitlement by the age of 51, with the raising of the state retirement age, they are faced with paying a further 16 years of NI contributions-to what end? This will not increase their state pension and allied to the impending reduction in S2P this strikes me as being just about the most aggressive stealth tax Gordon has yet devised.

*June 2006*

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## Equity release - Adviser qualifications

Safe Home Income Plans, (Ship) the UK equity release industry body has announced that next August its members will no longer accept business from advisers who do not hold a suitable lifetime mortgages qualification.

Ship says all advisers will have to sit the lifetime mortgages examination in order to work with any of its members. The trade body says it hopes its members making such qualifications a pre-requisite for working with them will encourage advisers take specialist examinations for equity release.

Jon King, chairman of Ship, called the decision by his members to reject business from advisers unless they have passed relevant exams a "significant step" adding he believes the decision will ensure advisers become qualified.

King says the decision is also designed to help improve the advisory process by ensuring that advisers have access to a clear set of guidelines which cover the key risk areas for clients such as impact on benefits, the importance of consulting with family members and even alternatives to an equity release product.

These measures will vastly improve advice standards in equity release, encourage consumer confidence in the industry and ensure its continued growth in the future.

*June 2006*

## National Pension Savings Scheme

The National Pension Savings Scheme- well at last we have it, the Government's answer to the pension crisis. With the recent publication of a White Paper, the government has outlined proposals that are going to save us all from penury in retirement.

However as I am (overly) fond of outlining in this column there is always a price to pay for putting our faith in well meaning politicians- who invariably adhere to the 'law of unintended consequences' with their actions.

To be specific, look at what the government is proposing to do to the State Second Pension (formerly known as SERPS). The idea of both was to provide a much needed earnings related top-up to a woefully inadequate Basic State Pension which would be funded by National Insurance Contributions deducted from employees pay.

Now four years after SERPS was rebranded as S2P the government intends to scrap the earnings related benefit and replace it with a flat rate benefit. By 2030 maximum SERPS benefit, in today's terms, should be worth about £110 per week but will be replaced by a flat rate benefit worth the equivalent of £60 per week. However the government still intends to take earnings related NICs. So you pay the same amount of tax for a benefit that will reduce by half when you receive it!

Better still whilst you will have to wait until you are 68 for your ( reduced) S2P pension -if you had remained 'contracted out' of SERPS/ S2P you would at least be able to access a quarter of the fund from age 55 onwards as a cash payment. Now as far as I'm concerned that's a damn site more attractive as a proposition because to be honest any promise from a politician is open to interpretation, change or simple cancellation unlike having some cold hard cash in the bank.

But the really big losers in all this are likely to be members of occupational pension schemes. Members will be compelled to make contributions of at least 4 per cent of pay, whilst employers will have to pay a minimum of 3 per cent of pay. A recent survey by AXA has found that more than a third of employers who currently contribute more than 3 per cent of pay would consider reducing their contributions to the new (lower) mandatory level.

So are there any winners in all this? Well the link to earnings will be restored as from 2012. That's right in another 6 years and only then if we can afford to restore the link, so it could be delayed as late as 2015: or until the end of the next parliament formed after the next general election. Definitely a case of jam tomorrow, maybe.

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Present day pensioners, nearly a third of whom are reliant on means tested benefit and nearly a fifth of whom are living in poverty will receive nothing from this.

There is nothing that I have seen that will deflect me from the belief that you rely on the state and the whim of politicians at your peril and the undoubted route to happiness in retirement lies within your own hands.

*June 2006*

## **Home Information Packs**

Home information packs (HIP) become compulsory from 1st June 2007; these will be used in the sale/purchase of any home after that date. The Government is introducing them to help reduce the £1 million a day that is wasted during the process of buying and selling residential properties in terms of valuations, surveys and legal advice associated with abortive transactions.

A HIP will include a sale statement describing the property to be sold, legal documentation, local searches, home condition and an energy report. It will be a compulsory requirement for any property being marketed and must be available to prospective buyers within 14 days of being requested.

The home condition report (HCR) will provide an objective opinion based upon a detailed inspection of the property and will identify items that are in need of repair or replacement and other defects requiring urgent attention. Crucially it will not include a valuation of the property.

There are currently approximately 5,000 home inspectors being recruited and trained and they will have to complete an approved accreditation scheme. The home inspector will have a duty of care to the seller, buyer and buyer's lender.

HIPs are expected to cost between £700-£1,000 depending on the location and nature of the property. So long as this is not an additional cost associated with the housing market and they speed up the often tortuously slow process they must be seen as a good thing.

*June 2006*

## **Government not to blame**

The Government has rejected the parliamentary ombudsman's report into collapsed pension schemes and dismissed calls to compensate victims.

In its formal response to Ann Abraham's report, the Government absolves itself from responsibility for pension losses and passes the buck on to scheme trustees and employers.

The much anticipated parliamentary ombudsman's report into the collapse of occupational pension schemes – released in March – concluded that Government advice had been “sometimes inaccurate, often incomplete, largely inconsistent and therefore potentially misleading”.

As such she called on ministers to use taxpayers' cash to restore benefits lost by up to 85,000 people across the UK.

She also called for “consolatory payments” in recognition of the distress caused to those who had battled to save their benefits.

The Government responded last week, stating that it was the “fundamental responsibility” of trustees and employers to provide detailed information to scheme members and that Government information was complete given the context and the intended audience.

James Purnell, the new minister for pensions reform, disagreed that the information issued by the Government was misleading and inaccurate nor does the government believe there is a link between this information and the pension losses people have experienced.

For individuals to be compensated for all their losses - however they occurred - would effectively mean that the pensions promises of employers were underwritten by the taxpayer. The government asserts that no such taxpayer guarantee ever existed.

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But surely if the government actively promoted the membership of occupational pensions to the detriment of other forms of retirement planning that constitutes advice.

If that advice turns out to be inaccurate, inappropriate, misleading or just plain wrong then surely someone should be held to account.

June 2006

## Fidelity Special Situations Split

Last week Fidelity announced the proposed split of the £6.5 billion Special Situations Fund. This is the largest retail unit trust of its kind in the UK market and has been run with an enviable degree of success for over 27 years by Anthony Bolton.

The fund has now become too large and unwieldy and will be split into two. One half will have a global focus run by Jorma Korhonen and the other half will continue to be run as a new- look original fund, which Mr. Bolton will run until the end of 2007.

The general consensus of opinion in the market is that this is generally a good move for clients. Future performance of course cannot be guaranteed and the value of an investment and any income derived from it can fall and rise.

June 2006

## IHT Crackdown

A powerful committee of MPs has attacked the Government for failing to consult before making sweeping IHT changes and is calling for it to justify its belief that the rules will only affect a small minority.

The Treasury select committee says the Government needs to back up its claim that only "a minority of a minority" of 100,000 discretionary trusts will be affected. The committee is concerned about the massive discrepancy between industry and Government estimates.

It says the justification that the move was against a tax-avoidance measure was questionable and says evidence suggests that the trusts were "ordinary management", not "avoidance devices".

It says people have been planning on the basis of exceptions in tax legislation and a consultation period should have been given. The report says: 'We are concerned that a legitimate measure designed to reduce tax avoidance may penalise trusts established to protect family members and consider the issue merits further consideration.'

The Tories are calling an industry summit this week in a bid to put pressure on the Chancellor to reverse the changes. Shadow Chancellor George Osborne and Shadow Chief Secretary to the Treasury Theresa Villiers will head the meeting. The opposition will be working with a wide-ranging coalition of professionals to urge the Government to think again on these proposals.

We have previously reported in these pages, about the gross unfairness of this swingeing and retrospective stealth tax. Unfortunately I do not hold out much hope for the success of the opposition to this measure as the Government is intent on steamrolling through increases designed to increase the revenue from IHT. Be warned- it will ultimately affect large swathes of middle England.

May 2006

## The death of final salary pensions?

Workers at Royal Bank of Scotland, one of Britain's biggest and most profitable companies, will be given the option of receiving cash in hand rather than saving for their retirement after plans to close the bank's final-salary pension scheme.

RBS said yesterday it planned to close its final-salary pension scheme to new members from October this year. New staff will then be given a 15% rise in their salaries to compensate for not being eligible to join the pension plan. They will be given a range of options to invest in, including a defined contribution, or money purchase scheme, or simply receiving the salary uplift in cash.

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RBS said the move would give new staff greater flexibility and options for their pension, adding it would cost roughly the same as the current scheme under which pension payments are based on an employee's final salary. What they have failed to disclose is that this is an attractive option for them as it ultimately caps their future pension liabilities.

There are 225,000 members of the RBS pension scheme, of which 85,000 are current members, 50,000 have already retired and 90,000 are "deferred" members — those who have left the bank but have yet to draw their pension.

RBS emphasised its new plan, which will start in October, would mean no change for its existing members. However, like the new recruits, they will be offered the choice of leaving the existing pension scheme in exchange for a 15% pay rise.

Undoubtedly for a large number of both new and existing staff the prospect of a substantial pay rise will be just too tempting to resist.

We live in a society wedded to both property, with an insatiable desire to climb up the property ladder, and debt as individuals are educated into living for today and worrying about tomorrow when it happens.

I fear that this move by one of our major employers will be followed by others and will prove to be just too tempting for too many. The consequences for our pensions in the future don't bear thinking about.

Is there an answer? Well yes there is, surely if we could all secure employment where there is a guaranteed final salary pension scheme that would solve the problem. That's it ... let's all go and work in the public sector gain an index linked final salary pension scheme and end the pension crisis at a stroke.

*May 2006*

## **Tax Increases**

Just as Gordon Brown finished giving his budget speech I was left wondering how some of his 'tax reduction' measures would impact on the general public.

In 1996/97, the last time there was a significant raising of the IHT threshold the government's tax take equated to £1.6 billion, now after successive budgets where the Chancellor has espoused a raising of the IHT threshold the tax take is anticipated this year to be approaching £5 billion. So not much of a tax reduction there.

In 1999/ 2000 the revenue received approximately £1.8 billion in residential stamp duty; this has increased in 2005/06 to over £5 billion. However the chancellor has in successive budgets raised the starting rate for paying stamp duty on a property purchase. But still not much tax reduction here either.

Obviously I need to get a greater understanding of Gordon Brown's idea of a tax reduction because at the moment mine and his just don't quite match up!

*April 2006*

## **Standard Life demutualisation**

Standard Life policyholders will this week be receiving their 'demutualisation packs' as the mutual assurer sets out its proposals for conversion from being a mutual to a limited company. Policyholders could get windfalls of over £1,000 plus a loyalty bonus if Standard Life demutualises.

The demutualisation proposals which are being distributed reveal that eligible members will receive 185 shares, expected to be worth between 240p and 290p, plus more shares depending on their policies.

Around half its 2.4 million eligible policyholders will receive shares worth between £500 and £1,000, with the remainder set for even bigger payouts based on the size and duration of their policies. Members whose policies started on or before March 30, 2004 and which have been continually invested in with-profits from that date are eligible.

Those whose with-profits policies matured on or after October 18, 2005 may still be entitled to a bonus payment. Members have until May 28 to return their voting forms, ahead of the special general meeting on May 31. If at least 75 per cent vote in favour, flotation will take place in July.

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Many policyholders will recall that Standard Life actively fought against a demutualisation in 2000 and may be wondering why the board has now decided to recommend this course of action.

Clearly the economic market place is different from 6 years ago with many companies having closed to new business under pressure from an increasing regulatory burden and equity markets having suffered a prolonged downturn in 2000-2003. Without the float with- profit policyholders would continue to suffer the risks of the business without any of the associated rewards.

Assuming demutualisation goes ahead Standard Life is bracing itself for a number of takeover approaches. According to the reports the mutual said it had received a string of offers in recent weeks.

A new proposal is unlikely before the Edinburgh group floats on the stock market in July - a move set to value it at £4.8-5.5bn, French giant AXA - widely tipped by analysts as a potential buyer of Standard Life - is also believed to have indicated an interest in acquiring a stake in the group. Prudential who have just spurned the advances of Aviva has already declared themselves out of the running.

What is certain is that this is going to be an interesting time for Standard Life's with profit policyholders in the near future.

*April 2006*

## **REITs are coming**

REITs are real estate investment trusts and are one of the most eagerly anticipated investment vehicles to be introduced to the UK property market and will transform the way in which investors can access property as an investment. A REIT is a publicly listed company, which purchases and manages property in order to deliver income and capital growth for its shareholders.

The government is encouraging the growth of REITs in this country in the hope that it will address the problems previously associated with property investment, namely a lack of liquidity and inaccessibility to small scale investors.

These investment vehicles have already been successful in the US, Australia, Japan, Netherlands, Belgium and more recently France. Approximately 72 per cent of the global real estate market is currently believed to be held in REIT type structures. As the UK follows suit and in 2007 Germany it is anticipated that up to 90 per cent of the global real estate market will be held in REITs.

The principal advantage a REIT will have over other property investment vehicles is the more advantageous taxation treatment; if a company converts to a REIT the government will waive corporation tax on the condition that 90 per cent of rental income is distributed to investors as dividends- thus removing double taxation. For the majority of UK investors this will mean typically accessing these investments by using up their annual stocks and shares ISA allowance

Investors are undoubtedly going to be drawn to REITs because property as an asset class offers the benefits of steady capital growth, good performance history and high income levels. But also as an investment vehicle commercial property performance is not related to that of other asset classes such as equities and bonds, thereby allowing investors to spread investment risk by diversifying across different asset classes.

We can now look forward to the landscape of the UK listed property sector undergoing a seismic shift. As the British public's love of property shows no sign of abating REITs promise to open up this market to the general public in a way that has not been possible before.

The launch of REITs promises to be potentially one of the biggest developments in retail investment markets in recent times.

*April 2006*

## **More Inheritance Tax**

The risk of inheritance tax will hit 4.2 m households by 2020 according to the Halifax.

Halifax estimates that the number of properties in the UK valued at more than the 2006/07 inheritance tax threshold of £285,000 now stands at 1.5m or 8 per cent of all owner-occupied properties.

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The revenue collected by the Exchequer from IHT could rise to £5.5bn a year in today's money by 2020. That is a 244 per cent increase from the £1.6bn the Exchequer received in 1996/97, the last time the IHT threshold was raised significantly.

Halifax calculates that the 2006/07 IHT threshold of £285,000 would now be £425,000 if it had been increased in line with house price inflation over the past ten years.

House prices have risen by 176 per cent in the past ten years, compared with just an 85 per cent increase in the IHT threshold. At present the inheritance tax threshold is projected to rise gradually to £325,000 by 2009/10.

If this trend continues, we project that more than 4 million properties will be valued above the threshold by 2020 and that inheritance tax revenue could be as much as £5.5bn per year in today's terms.

*April 2006*

## **Cost of Budget changes**

It has been estimated that re writing wills to comply with changes to trust legislation announced in the Budget will cost families around £250m. According to a report by the Chartered Institute of Taxation (CIOT) families would face a typical cost of £250 to rewrite their wills, and more than 1m families are expected to be affected by budget changes.

HM Revenue & Customs claims it will receive an extra £15m a year in tax from the affected trusts. This means it would take around 16 years before the Treasury will have raised as much as the rule changes will have cost families. This makes this measure arguably the least efficient tax in history. Thanks for this one Gordon!

*April 2006*

## **A Day - Pension simplification**

A-Day was 6th April -- the day on which the government simplified the pension rules and made it easier for us to save for our retirement. (Although this is simplification as devised by civil servants.) This piece of legislation, which Gordon Brown was 'tinkering' with just a week ago, is the most significant piece of pension legislation to be effected in this country. These are some of the main changes:

You can contribute as much as you want to as many pension schemes as you want (although you'll only tax relief up to the level of your salary or £215,000). Don't worry too much if your pensions are spread over lots of schemes. It's inconvenient, but you're better off than about half the country, which has no pension whatsoever, other than their state pensions.

You get tax relief up to your total earnings, i.e. your salary and other earnings such as interest on savings and rental income, as long as your contributions don't exceed £215,000 this year. This maximum limit, which obviously will only concern a tiny proportion of the population, will increase each year to £255,000 by 2010 and will reviewed every five years thereafter.

Tax relief is 22p for every 78p you contribute for basic-rate payers and 40p for every 60p contributed for higher-rate payers.

If you're are not earning or are a lower earner, you can still contribute £2,808 and get tax relief, which means your contributions are boosted to £3,600 per year.

A new concept is the 'lifetime allowance', which is set at £1.5 million this year and will rise to £1.8m by 2010. Pension pots over this amount will suffer additional tax however; this will only concern a tiny minority. (Part of this tiny minority would have been senior judges, civil servants and MPs - so they have exempted themselves from this particular measure. Simplification for everybody but them!)

Up until age 75, you can take up to one quarter of your pension in a tax-free lump sum (or one quarter of the lifetime allowance, whichever is lower). Anything more than this is usually taxed at 55%. Ouch!

You can retire when you like, but the age in which you can claim your pensions will rise from 50 to 55 by 2010. Some pension schemes may choose to step up the increase gradually between then, so check

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with your scheme administrator if you're around this age. Also, you can continue to work and claim your pension from the same company if you want.

While the state pension should ideally keep us out of poverty, as a nation we still have a long way to go before we sort out our pension situation. Perhaps we'll never manage it. These changes are a step in the right direction, although pension simplification has, in fact, introduced some new complexities. Regardless of what happens, the main story remains the same. You are the only person who can ensure you get a decent retirement. Rely on the government at your peril.

*April 2006*

## **Yet more Inheritance Tax!**

On Wednesday, Chancellor Gordon Brown rewrote IHT rules by abolishing tax exemptions for a range of legitimate avoidance schemes including accumulation and maintenance trusts and interest in possession trusts.

An accumulation and maintenance trust would typically be set up by grandparents who wished to provide for their grandchildren's education and although this would have been seen as a potentially exempt transfer and subject to the seven year exemption rule it would not typically have incurred a tax charge. All this has now changed as Gordon Brown swings his hammer at legitimate tax planning vehicles

In future it will mean that the trust would be subject to a 20% levy on entry and a periodical tax of 6% on the value of trust every 10 years. Even more alarmingly this tax charge is to be introduced retrospectively and it is believed there are over 100,000 schemes currently in place in this country that will have to be unwound.

A spokesman for Axa Sunlife said it had stopped new investments because of the Budget and other providers including Abbey and Clerical Medical are believed to be considering similar action.

Many companies have put on hold on all completions on inheritance tax mitigation schemes until the dust has settled. One thing is for certain the budget changes are going to make things much, much more complicated. It looks like the chancellor has created some tremendous problems for investors and advisers which will take time to work out.

The chancellor may well point to the decision to raise the nil rate band for inheritance tax to £325,000. However as always with this chancellor the devil lies in the detail of this particular measure. The IHT threshold will not reach this level until 2010; currently the nil rate band is £275,000. So if we assume an average rate of inflation of say 3% p.a. over that time then the nil rate band would have risen to almost £310,000 by 2010. So in real terms there has been approximately a 4% rise in the level of nil rate band and this has been phased in over 4 years making a real increase of just over 1% p.a.

What is interesting is that if the nil rate band had been increased in line with the increase in property values, since this government came to power, it would now be set at over £500,000. As everyone is aware the increasing wealth of individuals has been driven principally by the rise in the value of property prices wouldn't it have been more realistic to peg the increase to the property price index?

An indisputable fact is that the government's revenue from this tax has more than doubled since it came to power and is now over £5 billion and so long as property values increase in real terms at more than 1% p.a. then in reality this will lead to an increase in the revenue from this tax. Is that a tax saving or an increase?

*March 2006*

## **Public Sector Pension Deficit**

Unfunded public sector pension liabilities have reached almost £1trillion (£1,000 billion), which is more than 80% higher than recent government estimates, claims consulting firm Watson Wyatt.

Four large schemes make up the bulk of the deficit, with unfunded pension schemes belonging to teachers, the NHS, the civil service and armed forces accounting for 77% of the estimated liability last year.

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According to Des Browne, the chief secretary to the Treasury, the most recent official estimate of the public sector pension liability was £530billion. But Watson Wyatt, believe this is a significant underestimate because it doesn't take account of falls in long-term interest rates which have pushed up the cost of pensions.

Instead the firm believes the real figure is actually £960bn, this amounts to £40,000 per household, and is more than 80% higher than the Government's estimate.

Undeniably pensions have become more expensive in recent years because people are living longer and the amount which can be expected to be earned on investments has gone down.

The Government is taking a rosy view of the cost of public sector pensions. If the private sector were allowed to use public sector methods to value their own liabilities, the £78bn deficit for the FTSE 350 would be completely wiped out.

It's hard to believe the Government would be using some financial engineering to make things look better for themselves than they really are!

*March 2006*

## ISA Season

The investment industry is gearing up for what it believes will be a bumper ISA season. As the 5th April deadline approaches nervous investors decide to take the plunge before the deadline passes and confident investors anxiously await the new tax year to fill up their ISA allowance as soon as possible.

It is not hard to understand this market sentiment, property prices are seen to be at best stagnant or at worst in decline, the stock market is showing impressive year on year gains and we are in a low inflation low interest rate economy where investors are anxious to maximise the returns on their capital.

But how many investors look to review their current portfolio at this time of year? The Myners report of 2000 showed that 90% of the reason behind 'over performance' of an investment could be attributed to asset allocation. This is the process whereby investors capital is spread across different asset classes be they shares, bonds, property or cash in a way that matches an investors personal attitude to risk. In this way the aim is to maximise upside potential whilst minimising downside risk within a timescale and framework ideally suited to an investors personal circumstances.

Asset allocation is about tailor making an investment to an individual's needs and not about the one size fits all approach typically adopted by the bigger players in the market. It should form part of an ongoing review process of any investment portfolio and can be seen to be every bit as important as making additional investments.

*March 2006*

## Homes to supplement pensions?

Almost two million people plan to use property to fund over 50% of their retirement income claims a new report from Prudential.

The joint report from Prudential and Datamonitor, suggests property is now seen as more important than savings and investments in retirement planning, with 12.9 million people expecting to use property to fund at least part of their retirement.

According to Prudential, a retirement gap exists in the UK, as over a third of people think between £12,000 and £25,000 a year is sufficient for a comfortable retirement.

But at current annuity rates, an income of £17,000 would require a pension fund of around £250,000, or even £350,000 to ensure it rises in line with inflation, which is in stark contrast to the average pension pot of just £25,000.

The report suggests the large amount of equity held by the baby boom population, those aged between 50 and 60, could prove to be instrumental in reducing the pensions crisis in the medium term.

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Figures reveal the current baby boom generation holds £542.6bn of equity in their property, with Datamonitor estimating by the time they reach retirement age in 2020, this will have increased to £1,425.4bn.

This is a sizeable resource, and Prudential says it makes sense for this age group to consider the role property could play in retirement planning, with those most dependent on it falling into the 45 to 55 age group.

This is reflected in the report, which claims one in 11 people at this age expect property to account for more than half of their retirement income. Although Prudential says this is not a cause for concern, as those in this age group who bought property 20 years ago, have seen prices increase by 358%.

Ways people plan to access the value of their property range from downsizing, chosen by 19%, followed by 10% opting for a lifetime mortgage or equity release scheme.

Property can form a great part of a retirement planning portfolio. It may be too late for people approaching retirement to build up a supplementary source of income using a pension, savings or investments, but the equity tied up in their homes could be instrumental in boosting their funds.

There are many ways of releasing equity, to supplement or indeed provide a retirement income and different options will be suitable for different people. What's crucial is it's never too late to start retirement planning and there is a multitude of different ways of producing retirement income.

*March 2006*

## **Good news for with profits!**

The with profits sector of the investment market place has been much maligned in the past and in many instances with good cause. 'With profits' is the type of investment that underpins many reader's endowment and pension contracts. So it is with some relief that there is at last some good news to report from this sector.

The Prudential, Britain's second biggest insurer, which runs the country's largest with profits fund - currently valued at over £83 billion has now increased the pay-outs from their policies for the second year in a row. Not only that but all Prudential endowments maturing this year will meet their repayment targets with an average surplus of over £3,000.

This obviously brings into question the validity of the ambulance chasers making a living out of the endowment 'mis-selling' review. I wonder how many individuals would consider making a complaint for compensation if they saw that their endowment was going to do what it was originally intended to do.

It also highlights that not all with profit funds are the same and it is vitally important that investors are not led into bad investment decisions based on sweeping generalisations. Whilst many companies in this sector are not only closed to new business but consistently produce pitiful returns for their trapped policyholders, some companies quite clearly have the financial strength that can underpin these investments and produce consistent returns for policyholders.

*March 2006*

## **Following Investment Performance**

At this time of year the money pages of most daily newspapers will be filled with advertisements for investment funds that have produced stellar performance over the last one, three or even five years. Well, past performance can be no guarantee of future returns but it is one of the principal methods we in the industry use to try and gauge potential future performance.

However if we were to look back five years to what were the best performing investment funds of 2000, none of these would feature in the best performing funds for last year. Some of this is attributable to the fact that the best performing funds were health funds and technology funds (remember the technology bubble?) But also in order to achieve stellar performance invariably fund managers need to take risks with investors' money and high risk as most people will understand will mean high reward but also large potential loss.

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Whilst the health and technology sectors may not be the flavour of the month, nobody really knows what will be the best performing sector next year. Far better to have a balanced outlook to investment that allows investors access to the best performing funds within each sector run by the best fund managers. Managing an investment and being able to switch away from poorly performing funds and fund managers will over time lead to better overall performance and management of risk.

Most individuals would happily drive around in a car worth anything between £10,000 and £20,000 and have the car serviced annually to keep it on the road and doing what it is supposed to do. Investments should be treated in much the same way.

*March 2006*

## **A Day is coming**

A - Day is the biggest single change to the pension system in this country in over 50 years, yet public understanding not only of the changes but retirement provision in this country remain woefully inadequate. A recent survey by JPMorgan INVEST says 68% of those in full-time employment have no idea what A-Day is, with one in 10 believing it to be a proposed new bank holiday, a new EU directive or a day when people were encouraged to stop drinking.

Meanwhile another survey by Barclays Financial Planning has also revealed a worrying gap between people's expectations about their retirement age and income and the financial reality.

Research from the firm, shows 48% of workers are not paying anything into a pension, and of those that are the average contribution is far less than it should be, however this does not seem to be worrying the majority of adults, with 63% claiming not to be worried about retirement planning at all.

Barclays Financial Planning says the average worker wants to retire at 59 with an average annual income of £18,300, but Barclays says the reality is they will probably be working until they are 63, and their annual income is likely to be well short of their expectation.

An average contribution of £54 a month will produce an income of just £2,054, which combined with a full basic state pension of £4,266, would result in a retirement income of just £6,320 a year, about a third of what people are expecting. Even if they are one of the very few lucky enough to get the maximum state second pension (S2P), of £7,598 on top of this, it would boost their income to £13,918 by the time they reach 65, but would still be a third less than they are hoping to receive.

As a nation we need to get real round retirement and view planning as a necessity and not a luxury.

People continue to have high expectations around retirement, but contributions remain woefully inadequate and mass inertia persists. We need to take personal responsibility to ensure we are saving enough as the sooner you start to save for retirement the less daunting it becomes.

*March 2006*

## **Payment Protection Policies under the spotlight**

The Financial Services Authority and Office of Fair Trading are concerned about this area of the market place as increasing numbers of customers find they cannot claim successfully when they had expected to do so.

Independent research, by financial analysis firm Defaqto, has discovered that two thirds of on-line providers and 40% of credit card firms refuse to allow customers to see the full terms and conditions of their insurance policy before they apply for credit. So even though you know there will be some small print associated with this contract you are predominantly not allowed to see the small print.

There is absolutely nothing wrong with Premium Payment Protection Insurance, however there is increasing concern in the market about the wide variation in pricing within the sector. There are also, quite rightly, moves afoot to ban the sale of single premium payment protection insurance as it is invariably inappropriate and is often the most expensive form of cover available.

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It is estimated that with over 2 million policies in force at any one time within the UK that customers are probably wasting up to £350 million every year on policies that are inappropriate. Unfortunately whilst many consumers undoubtedly need this type of cover they are being let down by the mainstream providers seeking to squeeze that extra bit of profit out of a sale.

March 2006

## SIPPs

As 'A' Day, 6th April 2006, approaches many firms are gearing up for the anticipated rush in demand for a Self Invested Personal Pension. Despite Gordon Brown's last minute change in direction with the withdrawal of the facility to invest in residential property, these pensions are certainly more flexible and will offer far more investment choice than traditional insurer's pensions.

However as with any purchase the 'buyer beware' motto needs to be heeded. SIPPs will offer access to over 1,300 unit trust funds in the market as well as individual shares, futures, options and even commercial property. But before buying a SIPP the investor needs to ask themselves will they really make use of all that investment freedom. If you merely want to invest in a handful of unit trusts it will probably be more advantageous to do so through a traditional personal pension with external fund links than to do so via a SIPP which will undoubtedly incur higher charges.

SIPPs are likely to be a more appropriate investment vehicle for more sophisticated investors with funds of over £100,000 who can absorb the higher charges that a SIPP will incur and who want to take some control over their assets. There are over 50 SIPP providers in the market place and most levy a set up fee and an annual charge over and above those levied by the purchase of the underlying investments. It is not hard to see that a SIPP is only going to be of any use to those sophisticated investors in the market place who will make use of the added functionality that will be available to them.

February 2006

## Policing new style pensions

The ABI has outlined its alternative to the Pension Commission's National Pension Savings Scheme (NPSS), which it calls the Partnership Pensions model.

Employees will be auto-enrolled with the option to opt-out into a company pension scheme or into the Partnership Pension. The ABI agrees with the Pensions Commission's 8 per cent contribution structure - a 3 per cent mandatory employer contribution, 5 per cent from the employee with 1 per cent tax relief from the Government.

Employees who do not have their own pension scheme will be able to choose a private sector pensions provider from an approved list. A standard contract will be issued by providers. Employers who do not choose a provider will be allocated one on a rotation system by a newly set up Retirement Income Commission. Pension contributions will be paid via a simple electronic system such as BACS.

The ABI believe Partnership Pensions will simplify pensions for individual savers and their employers, reduce costs and will open up the benefits of competition and choice to millions of savers.

There may well be broad agreement over a way forward however nobody seems to have taken into account the costs of policing any such scheme. Government has recently admitted that it has only prosecuted one employer out of the 70,000 companies which have broken the rules on stakeholder pensions.

The news must place into doubt whether the proposed national pension savings scheme could be effectively policed.

The stakeholder admission from pensions reform minister Stephen Timms in Parliament recently poses questions over the Government's ability to slash costs while raising the numbers of people saving in a pension.

The stakeholder regime affects employers with five or more staff while the Pension Commissions proposals for the NPSS hugely magnify the number of employers that will have to be monitored and the cost of policing this.

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The Government will have to be much more flexible on the cost of the scheme and massive issues need to be addressed over how employers will provide advice and pay contributions and what penalties will be introduced for those who fail to meet these requirements.

If any pension reform is going to be successful in increasing savings, it is going to require the resources to police employers, which means increased costs to the model being proposed or a different model altogether.

Huge question marks remain about the costs of policing the NPSS; shown by the fact that only one employer has been prosecuted for breaking stakeholder requirements. You will have to force these employers to operate the schemes which increase costs and challenge the current debate.

There are an estimated 350,000 employer firms at any one time and it is estimated that around 70,000 of those are not complying with the requirement to designate a stakeholder pension scheme. These numbers will surely only get worse with the introduction of the NPSS but currently there are no plans to address this failing.

*February 2006*

## **Investing In BRICs**

Everybody knows what is meant by the phrase 'to invest in bricks and mortar'; over 70% of the adult population has taken this particular investment route. But how many individuals would be aware of investing in BRICs?

BRICs are the worlds' fastest growing economies Brazil (B) Russia (R) India (I) and China(C). According to statistics from Baring Asset Management these economies have shown growth averaging over 25% over the last three months and averaged over 61% over the last twelve months (with China achieving the highest growth of over 90%.) However as you can imagine any investment into these markets is seen as being high risk with a large degree of volatility- in fact completely the opposite of an investment in more traditional 'bricks'.

Over time as these economies become larger and larger and increasingly affect the global market place we will have to take an increasing interest in these emerging nations when making our investment decisions.

*February 2006*

## **Contract In or Contract Out?**

Many readers will be aware of this piece of jargon regarding their status with regard to the state second pension (S2P) or what used to be known as State Earnings Related Pension (SERPS).

Increasingly insurers are writing to their customers to re-evaluate their decision to 'contract out' in the light of a government reduction to the rebates that are provided to their contracted out pension. Over 400,000 Prudential policyholders are being asked to make a decision by the end of this month; whilst other insurers (HSBC, NU, Scottish Widows) have contracted their policyholders back in unless they are instructed otherwise.

But what is S2P and why the change? S2P is the state second pension and superseded State Earnings Related Pension (SERPS); it is designed to provide a second state pension to employees who are not members of occupational pension schemes. S2P is designed to be more attractive to low and middle income earners. Currently those earning less than £27,800 p.a. will be better off in pension terms with S2P than SERPS.

What is contracting out? This means that you have left S2P and have elected to have a portion of your National Insurance Contributions paid into a private arrangement via a government rebate. This rebate is designed to equate to the amount of benefits you have given up by leaving S2P. However the majority of insurance companies now estimate that the size of this rebate is insufficient to compensate for the loss of S2P benefits.

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Approximately 8 million have been contracted out of S2P or SERPS since the facility first became available in 1988. These individuals were hoping to boost their retirement income because it was thought that this would be more lucrative than relying on the State.

Not surprisingly the Government has moved the goalposts and individuals should now revisit this decision annually. Most insurers are currently recommending that everyone should be contracted in to S2P, particularly those on lower incomes. However there are other factors to consider, for example after April this year you will be able to take tax free cash out of a 'contracted out' pension fund which has not previously been possible. Nor will it be possible to take tax free cash from your S2P pension.

A contracted out pension is available from age 60, whereas S2P will only be available from state pension age, currently 65 but predicted to rise.

Ultimately it may well boil down to who individuals trust most with their pension a Government that has consistently moved the goalposts on retirement provision or an insurance company where the size of pension may be dictated by the vagaries of stock market performance and annuity rates at retirement.

You decide.

*February 2006*

## **More pension consultation**

Over 18 months ago in this column we introduced the topic of pension reform to our readers and how we as a nation might hope to prevent the pension crisis we are facing becoming a catastrophe. We informed readers that as with all government policy there will be a period of consultation before any recommendations become policy and then be discussed endlessly in parliament before being implemented. (Or not, dependent upon which government is in power at the time and whether it suits their electoral needs).

The government has now decided that the general public will be able to have their say on the Pensions Commission's findings, published on 30 November, and these results will help inform a Government White Paper, says Secretary of State for Work and Pensions John Hutton.

Options set out in the Pensions Commission report, will form the basis of the next phase of the National Pensions Debate leading up to National Pensions Day, involving simultaneous consultation events in major cities across the UK.

Lord Turner's report has made it clear that we do not face a pensions crisis today – but we must not put off taking action if we are to prevent tomorrow's pensioners facing poverty in old age.

The government has stated its determination to reach as broad a national consensus as possible and believes the Pensions Commission's proposals are the framework for achieving this.

The next part of the debate will concentrate on the options Lord Turner and his fellow commissioners set out. This will involve testing ideas in a series of events which will enable people to discuss the difficult choices ahead and tell the Government what they think about the solutions set out by the Commission.

People will be asked to give their view on a package of options including:

The basic framework of the State Pension; State Pension Age and working longer;

A national system of personal pension accounts; the role of employers in providing pensions; and correcting past inequalities, particularly those faced by women and carers.

A 'toolkit' will be developed to allow stakeholders to run their own events and provide feedback on the Pensions Commission proposals, and people will also be able to give comments on the National Pensions Debate website.

Securing a decent retirement income for people in the future is one of the most important challenges facing society- this issue is of crucial importance to us all.

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We have been staring down the barrel of a pension crisis for almost a decade now yet this Government, which has presided over the most systematic dismantling of a once enviable pension system, chooses to consult, debate and delay any positive pension reforms. Next we will hear they have placed the matter in the hands of those reliable Government ministers Bodgitt, Fudge and Scarper. Unfortunately we can't afford to wait any longer!

January 2006

## Government waste

Or how Whitehall pours billions of pounds of taxpayers' money down the drain. I am indebted to Matthew Elliot and Lee Rotheram authors of the 'Bumper book of Government Waste.'

At a time when we are facing critical questions as a nation about the state of our health, education, benefit and pension provision they have managed to highlight some of the excesses our elected leaders are responsible for.

The following is a list of the worst examples of government waste and the money that could be saved on them.

Retirement age conditions: Aligning the retirement age and pension provision of public sector workers with the private sector would save £7bn.

NHS inefficiency: An ONS report in 2004 suggested that the NHS was wasting up to £6bn a year due to rising inefficiency.

Central government administration: The government is spending £21.3bn on administration in 2005/6, up more than 40% since 1998/99. During that time, prices have gone up 14%. This 26-point difference captures the £5.54bn of inefficiency and inflation-busting pay rises.

Unnecessary incapacity benefit: A third of the country's 2.7m Incapacity Benefit claimants could work immediately. This would save taxpayers' £4bn of the total £12bn bill.

Inefficient local government procurement: The Confederation of British Industry says councils are wasting at least £3bn a year because they are not squeezing value for money out of contractors.

Scottish spending: If the spending per person living in Scotland were cut to the level of that in the north of England, taxpayers would save nearly £2.7bn a year.

Fraud and error in the benefits system: The National Audit Office says fraud and mistakes in the benefits system cost taxpayers £2.6bn a year. Labour MP Frank Field believes that the real figure could be as high as £7bn.

British subsidy to overseas farmers: Britain's net contribution to the EU budget is £4.3bn a year. About 45% of the budget is allocated to the Common Agricultural Policy, which means that over £1.9bn of British taxpayers' money went to overseas farmers.

Overpayment of benefits: Over £1.1bn is owed to the Department for Work and Pensions.

State sector absenteeism: Public sector employees take an average of 10.7 days off sick a year, against only 7.8 in the private sector. The total cost of state sector sickness is £4bn so the extra time taken off costs taxpayers £1.084bn.

If all those appear too difficult to comprehend, here are a few of the smaller illustrations of waste that highlight my point better than anything...

£40,000 spent by the NHS on a 46-word "Patient Experience Definition" that required two £8,000 workshops, a £4,000 public meeting, two £1,600 meetings with children and three £600 in-depth interviews with mental patients. Among the aspirations established by the exercise were that patients wished to be treated "with honesty, respect and dignity". Really.

A £225,000 scheme advising the elderly on how to wear slippers the aim of the initiative was to persuade the over-55s not to wear ill-fitting slippers in case they tripped downstairs. Honestly this did happen.

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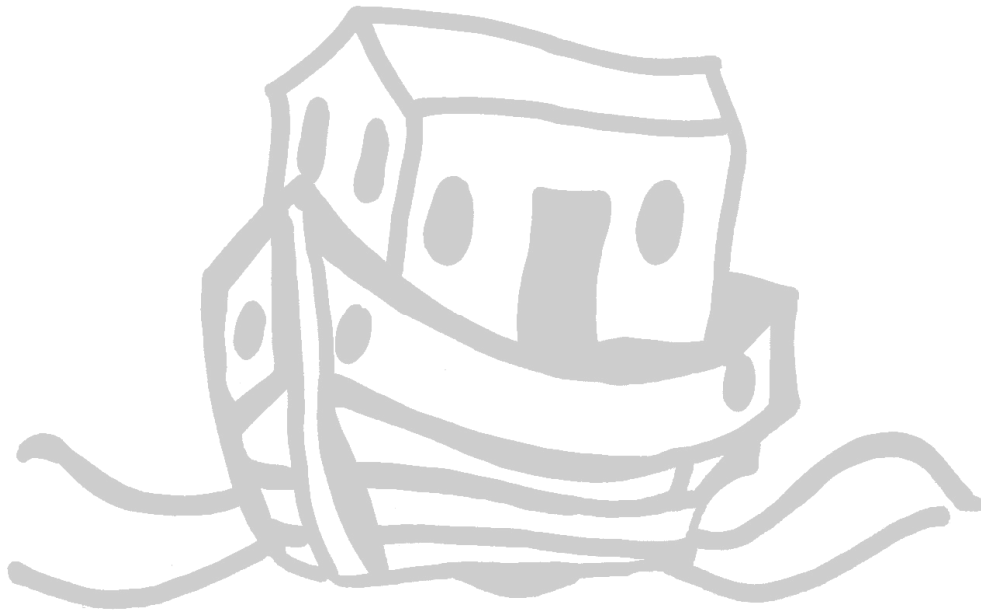
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And finally, two of the more remarkable payments included £200 to the owner of a parrot apparently scared by a jet (presumably a Hawk) and £2,500 allocated for an RAF aircraftswoman to retrain as a pole dancer.

It's your money they're spending.

The Bumper book of Government waste published by Harriman House, authors Matthew Elliot and Lee Rotheram.

*January 2006*



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