ANGLO INTERNATIONAL

PERSONAL FINANCIAL MANAGEMENT

MoneyMatters

November/December 2017

YOUR *drawdown checklist*

FINANCIAL PLANNING & the modern family

Is your MONEY *wasting away?*

It won't happen TO ME

Planning for RETIREMENT

• Lifestyle Protection • Creating Wealth • Tax Rules

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It won't happen to me

FINANCIAL LONG-TERM SICKNESS PLANNING

Due to low benefit levels, it is thought that those 'bread winners' of working age should consider Income Protection (IP). IP is an insurance policy which will pay out if you become unable to work due to injury or illness and will usually pay out until retirement, death or your return to work, although short-term IP policies are now available at a lower cost. IP is not set against redundancy but will often provide 'back to work' help if you are off long term sick.

UNABLE TO WORK

Research carried out by Zurich Insurance found, only one in five people in the UK have IP cover in the event of becoming too ill or disabled to work. This is despite the fact that as many as 42% have experienced income loss in their working lives due to serious illness. As is often the case, many people still have the 'it won't happen to me' thinking despite a good number having suffered the consequences first hand. Over a quarter of respondents to the survey said they would be willing to spend up to 5% of their income on IP security.

IF THE WORST SHOULD HAPPEN

In the absence of security, most people rely on savings should the worst happen, but it is thought that people have only enough savings to last them one month, while the rule of thumb should be to have enough to last up to three months. This picture emerges as the welfare system faces austerity measures with expansion of the Government's Work Capability Assessment programme to review the eligibility of a further 1.5 million people already receiving Incapacity Benefit.

ILLNESS AND INCOME LOSS

Unsurprisingly, after paying income tax for many years most people would like the Government to cover income loss in the event of illness, followed by their employer. It is thought that many employees are willing to accept a better benefits package including IP benefits rather than higher wages, suggesting a greater role for employers in helping to protect their employees' during health hardship.

INCOME PROTECTION GAP

The IP gap is consistently growing with annual inflation and is therefore a continuing challenge for individuals, families and society as a whole. For a family, the impact of the main 'breadwinner' not being able to work through illness or disability can be devastating, with financial hardship can result in the loss of the family home for those worst hit. An Income Protection policy every working adult in the UK should consider is the way out of such a terrible situation and which gives everyone peace of mind on a daily basis.

Why are pensions more popular than ever?

HMRC's most recent statistics show that a total of nine million people contributed £24.3bn into personal pensions during 2015/16, this is a 20% increase on the previous year, which means personal pensions saving have at last gone beyond that which was achieved before the bankers recession of 2007/08 and now both membership numbers and the amounts invested are on the rise.

What is driving the pension recovery?

During the banking financial crisis, many people were faced with financial 'belt tightening' and didn't have spare money to consider saving for their future.

Now with the economy recovering and I better shape, people can think about their future and their family's future once again. In addition there has been a boost to pension saving from automatic enrolment, under which employers must offer a workplace pension scheme and automatically enrol their staff.

When you put money into your pension, the government will too

A recent survey from BlackRock found that half of UK adults didn't know that when they pay money into a pension, the government pays in too.

Tax relief is probably one of the most important benefits of a pension. Unsurprisingly, a quarter of people surveyed, said that if they had known the government added to their contributions they would of paid more into their pension.

How does tax relief work?

Tax relief is simple. To get £1,000 in your pension, you actually only pay £800 and the government adds the remaining £200 or 20%.

Higher-rate taxpayers can claim back up to a further 20% through their tax return - that's another £200, meaning the effective cost of the £1,000 pension contribution is just £600.

Even high rate, additional-rate taxpayers can claim back up to a further 25% through their tax returns or self assessment.

Everyone should take advantage of the rare occasions when the taxman gives back and almost everyone under age 75 can benefit.

The amount you receive from the taxman depends on your circumstances, and tax rules can change. What you do with your pension is an important decision. We strongly recommend you understand your options and check your chosen option is right for your circumstances . Take advice or guidance if you are unsure. The government provides a free and impartial service to help you understand your retirement options – more on Pension Wise.
This article isn't personal advice. We offer a range of information and support to help you plan your own finances.

New pension rules have made pensions more attractive than ever

In 2014 the government announced a radical shake-up of pension rules.

For the first time ever, anyone aged 55 and over (57 from 2028) can choose to take their entire pension as a lump sum, if they like.

Usually, up to 25% of the lump sum will be tax free, the remainder is subject to income tax.

Under the new rules, you can use your pension how you wish to fund your retirement. You can buy an annuity, which provides a guaranteed income for life, use drawdown to leave your pension invested and provide a flexible income or a combination of both.

Drawdown allows you to keep control of your pension. You choose where to invest it, and have the flexibility to withdraw as much or as little as you want and when you want. Keeping a pension invested there is the potential to increase its value through investment growth, but it can down too, should you take too much out, you live longer than expected or your investments don't perform well.

Combining both

Some investors are benefiting by combining the two approaches, buying an annuity with part of their pension pot to cover essential expenditure, and accessing their remaining pension flexibly using drawdown, whilst at the same time being tax efficient.

How to invest using active funds

Investors generally follow a chosen path generally guided by their aversion to risk, this is the case when considering active or passive investing as investors often have a strong preference for one or the other. Those who lean towards active investing prefer to have a fund manager choosing the investments they believe will outperform the market. On the other hand those you prefer passive funds, which aim to track an index, usually cite lesser management and lower fees as a key advantage.

There is no right or wrong answer, and in fact both active and passive funds can have their place as part of a diversified investment portfolio.

In some sectors we are now seeing a few active fund managers with the ability to deliver index-beating returns. Where this is happening, a carefully chosen tracker fund can be a great option. On the other hand, in certain sectors there are few, if any, tracker funds to choose.

Here we investigate three sectors that tracker funds do not typically cover, but where there are high-calibre active fund managers with proven records of adding long-term value.

UK Equity Income

UK Equity Income is still one of the most popular investment areas with most investors.

Investing for income is a strategy which is set against a narrow indices band. Some indices have been created to contain only higher-yielding companies, but are often focused on a concentrated number of sectors, which reduces diversification.

Additionally it's not always the case that the highest-yielding companies are the most successful. The yield might be high because they are higher-risk or the share price may have recently tumbled. Some of these businesses will see a turnaround, but others may struggle to recover and be forced to cut their dividend, which the effects the equity income.

Being able to spot the winners from the lesser performers is not easy; this is why we would recommend investors would benefit from investing with an active manager. An experienced equity income manager knows how to spot a company with rising share prices (and the yield falls); able to take profits and reinvest the proceeds into the next high-yielding opportunity.

UK Smaller Companies

There are now hundreds of UK smaller companies to invest in. The sheer scale makes it difficult to invest in every stock available and the shares of the smallest companies can also be difficult to buy and sell. This means the positioning of a tracker fund could deviate significantly from the index.

There is always a higher risk investing in smaller companies, whilst they can be dynamic, adaptable and entrepreneurial, they are less established than their larger counterparts and more prone to failure.

By using the services of a talented active fund manager, you will be able to sort the wheat from the chaff; those investing in smaller companies often have the greatest stock-picking edge and uncover opportunities missed by other investors.

Strategic Bonds

Tracker funds investing in bonds usually cover more conventional areas of bond markets, such as corporate bonds issued by large, creditworthy firms and gilts (UK government bonds). They are unable to take a more flexible approach to bond investing and must stick to their area of focus.

At present, with our current low interest rates, yields in these areas are low, and we see relatively little value. Active, strategic bond funds have more flexibility to seek the best returns from across the entire bond market and respond quickly to changes in the investment environment and are becoming more favoured and rewarding.

Strategic bond funds have the ability to also invest in higher-risk, high-yield bonds and have a variety of methods to generate greater returns, although success relies on the fund manager making good strategic decisions at the right time.

This article is not personal advice.
If you're unsure of the suitability of an investment for your circumstances, please contact us for advice.
Remember investments and income can fall as well as rise in value, so you could get back less than you invest.

5 ways to reduce your tax bill in retirement

No one wants to pay more tax than they need to, especially when it's from your hard earned savings. HMRC collected around £575bn in taxes in the 2016/17 tax year according to their annual report.This includes tax deducted from pension income, interest from cash savings and personal investment income. Taking advantage of all available allowances and understanding how tax works, is key to keeping your tax bill to a minimum.

1 TAKE YOUR TAX-FREE CASH ENTITLEMENT

Most pensions allow you to take up to 25% of your pension tax free from age 55 (57 from 2028). You can choose to receive this in one lump sum or in stages.

Thanks to the recent pension reforms it's now possible to take just your tax-free cash and postpone taking further income until a later date. This could be particularly useful if you decide to reduce your working hours rather than give up work completely. Tax-free cash could be used to subsidise the difference in income.

2 PENSION WITHDRAWALS – MAYBE!

The new rules introduced in 2015 allow you to withdraw as much income as you like from your pension and to vary the amount that you take. However, be aware the way the tax system works means you could pay up to 45% tax on your initial withdrawals.

Understanding the rules and spreading your withdrawals over a number of tax years could save you a substantial amount of money.

3 ISAS SHELTER YOUR CASH FROM INCOME

All interest which you receive from cash savings over and above your personal savings allowance is taxable. Likewise, income gained from equity based investments is subject to dividend tax if over £5,000 (set to fall to £2,000 from April 2018).

However, within an ISA you pay no UK tax on income or capital gains.

Investing to the allowable limit in an ISA each tax year could allow you to build up a sizeable tax free investment. There is no upper age limit to be eligible for a Cash ISA or Stocks & Shares ISA, and you can make tax-free withdrawals whenever you need to. The amount you can invest in the 2017/18 tax year is £20,000. Unlike cash, investments will fall as well as rise in value so you could get back less than you invest.

4 MAKING YOUR RELATIONSHIP TAX EFFICIENT

If you are married or in a civil partnership, you should be able to save tax by using up any surplus of each other's allowances and tax bands. This could involve transferring investments between you, often to the spouse or partner who pays less tax.

5 TAX PLANNING ON DEATH

Inheritance tax is the tax owed on your total assets and estate; this includes the total value of your property, savings, investments and possessions, after you die. The current threshold for inheritance tax is £325,000, meaning any portion of your estate in excess of this could be taxed at 40%.

An additional threshold of £100,000 (2017/18 tax year) may be available if you own your home.

The best way to reduce inheritance tax payable is to reduce the value of your estate. This could include making gifts or contributing to a pension, where payments after death are normally free of income tax and inheritance tax.

Inheritance tax planning is complex. It is one of the main reasons investors come to Professional financial advisers for personal advice.

Pension Wise:
The government's pension guidance service, provides a free impartial service to help you understand your options at retirement

Pensions and tax rules can change and any benefits will depend on individual circumstances. If you are in any doubt as to the best course of action for your circumstances, you should seek personal advice. You should not make any decisions based solely on the above. This article is not personal advice. What you do with your pension and savings is an important decision. Therefore, we strongly recommend you understand your options and check your chosen option is suitable for your circumstances: take appropriate advice or guidance if you are at all unsure.

How financial planning work

Some say it's easier to make money, than it is to keep it.

Today's modern day family is constantly changing. It's becoming normal to have extended families and to experience more regularly significant life events such as divorce and bereavement.

Many Financial Advisers help clients faced with these circumstances, they provide the assurance that investment decisions are going to be right for you. Many of us encounter moments in our lives which could have a significant impact on our future finances. During such times it's worth considering whether you could benefit from the help of a financial expert.

INVOLVE THE FAMILY

Talking about money doesn't come easy; even with our closest loved ones, but more recently it seems that the number of families that want to engage all members in financial planning is growing. It makes a big difference to involve the family, as it often reduces the difficulties further down the line.

GIFTING

Most people want to help their children and grandchildren out financially with monetary gifts but also want to maintain some sort of control to ensure it is not wasted and put to good use. We all have allowances to gift to our loved ones each tax year, but this can be a lot more complex than a straightforward gift of money:

- **Annual exemption** - Each tax year, you can make a gift of up to the annual exemption of £3,000 to any person.
- **Gifts from income -** you can make regular gifts out of surplus income completely IHT free.
- **Marriage gifts** - parents and grandparents can gift up to £5,000 and £2,500 respectively upon marriage or civil partnership. Other relatives or friends can give up to £1,000.
- **Small gifts -** you can gift up to £250 to any number of people completely free of IHT.

Please note these gifting allowances do come with their own rules and they are subject to change. Benefits will depend on individual circumstances.

It becomes more complex when people want to maintain a little bit more control over a sum of money they would like to gift. Perhaps your son or daughter is going through a difficult divorce and you don't want to see them losing half of the money you have gifted. Alternatively, you may want to time gifts to grandchildren to help with university fees. This is where trusts can come in useful. Trusts can be expensive and complex to run, but quality sound financial advice will ensure you make the right investments choices.

DIVORCE AND SEPARATION

We all know people who are separated or divorced; such life events throw any financial plans up in the air and has a very big impact on retirement. Many couples have planned all their lives for retirement together, using different pots and combining assets tax efficiently.

When separation occurs, a couple often has to split all assets and the pension pots that they saved over many years. One half of the couple may never have dealt with

ks for the modern day family

finances, then suddenly finds themselves with a pot of money which needs to last the rest of their life. It's in such circumstances that a Financial Adviser adds real value, helping the client to understand how to deal with the new money in a way that is right for them.

BEREAVEMENT

Whether we like it or not, we are not here forever, therefore one of the most common reasons clients speak to an adviser is to put a plan in place for such a time. Losing a loved one is a difficult time and this can be exacerbated by dealing with the financials. Preparation can make it a much easier process, and provide peace of mind.

Often, it's the case where one partner dealt with all the finances and the other had little idea or interest, because their partner always handled the financial household management. This is where good professional financial planning can play a significant role in providing peace of mind for the transition, by explaining where investments and assets are currently being held, and helping to handle the finances along the way.

Whatever your goals, we pride ourselves on helping the whole family. From helping children or grandchildren through Lifetime & Junior ISAs to planning for retirement and beyond, our expert knowledge helps us to quickly understand and identify what is important to you and create the approach that is right for your entire family. Saving you both time and money, whilst providing you with a financial plan which is suitable for your future.

OUR GUIDE TO GIFTING:

1 **ANNUAL EXEMPTION** - Each tax year, you can make a gift of up to the annual exemption of £3,000 to any person.

2 **GIFTS FROM INCOME** - you can make regular gifts out of surplus income completely IHT free.

3 **MARRIAGE GIFTS** - parents and grandparents can gift up to £5,000 and £2,500 respectively upon marriage or civil partnership. Other relatives or friends can give up to £1,000.

4 **SMALL GIFTS** - you can gift up to £250 to any number of people completely free of IHT.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Planning for retirement

They say we are all living longer, which means we can expect to live a further two decades or very likely even more. Living longer means more time and that means needing more money being spent in retirement. So how do you get the best out of your pension and achieve financial security in retirement?

1 PLAN YOUR EXPENSES

Evaluate your essential costs; these are likely to continue into retirement and which could last decades.

Using a household budget planner add up what you spend on day-to-day basis on items such as food and utility bills, as well as your car or transport and hobbies.

Next think about how your spending may alter once you retire, and work out if you are on track to achieve the income you will need to pay for the lifestyle you want in retirement.

Calculating what income your pension will provide is not easy as there are many unknown factors.

2 SPRING CLEAN ALL YOUR PENSIONS

It is estimated that as much as £400m of pension savings were unclaimed last year, according to the Department for Work and Pensions. Keeping track of all your lost pensions could be a fruitful exercise.

Most of us have had more that one employer during our working life. In fact, on average, we have 11 different employers during our careers, and so could have as many pensions. Keeping track of them all can be challenging, especially if your circumstances change (for example, you change your name or move house).

If you've lost contact with your pension provider or employer, you can trace your lost pension free with the government's pension tracing service.

3 BRINGING ALL YOUR PENSIONS TOGETHER

Bringing all your pensions together under one roof by transferring to one pension provider could make for easy, simple pension management.

Under one umbrella they are much easier to see, including your ISAs and investments, and how much income they're producing, at any time. You can manage your account online, allowing you to buy and sell investments with ease.

Before you consider any form of transfer, please check for exit fees and make sure you'll benefit. If you're transferring a pension, please check you won't lose valuable guarantees or benefits. Be aware when transferring pension as the investments are usually sold first and transferred as cash, meaning you'll be out of the market and miss any rises or falls for a period.

4 CONSIDER ALL OPTIONS

When you are ready to take money from your pension, you may be surprised by just how many options are available. Options bring risk, if you don't do your homework on the benefits of each one.

You can opt for an annuity if you're looking for a guaranteed income for life, using some or all of your pension. Income is secure, but once set up an annuity can't normally be changed.

There are other more flexible options, though these carry more risk. These include taking pension income via drawdown or as lump sum payments (known as an Uncrystallised Funds Pension Lump Sum or UFPLS). Both offer the potential of an increasing income and investment growth, but both could see your investments fall in value should the markets fall and inflation bite.

Pension Wise, the government's pension guidance service, provides a free impartial service to help you understand your options at retirement.

5 FACTOR FOR INFLATION

Inflation eats capital and is the enemy for savers, over time it will reduce the buying power of your income and capital. Even over short periods, inflation can have a long lasting impact.

Putting this into perspective, a £1,000 investment in September 2010 would have to grow an average of 2.7% per year to keep with prices at September 2016 levels.

Thankfully there are ways you can increase your income over time. For instance, if you decide to buy a lifetime annuity you can choose to build in an annual increase. This increase can either be a fixed amount of maybe 3% or 4% or it can move in line with inflation. The downside being you will need to accept a lower starting income.

By keeping your pension invested, it's possible to beat inflation with investment growth. But you do run the risk that you could make a loss. Don't forget, you can mix the options to receive a blend of flexible and secure income. This can offer peace of mind.

What you do with your pension is an important decision. We strongly recommend you understand your options and check your chosen option is suitable for your circumstances: take appropriate advice or guidance if you're at all unsure.

Is your money wasting away?

If you don't know how to prevent your savings from shrinking, you are not alone and many people in the UK have no idea either. Recent YOUGOV findings show that nearly a third of people aged 18-65 plus were unaware how to grow their savings, which will keep up with inflation and rising.

There are a number of elements that create inflationary pressure in an economy. Rising commodity prices, such as food and oil, can have a major impact, as this translates into steeper costs for consumers with immediate effect.

THE PRESSURE OF INFLATION

Stronger economic growth also pushes up inflation, as increasing demand for goods and services places added pressure on suppliers, which in turn leads to companies raising their prices. The falling pound, due to purchasing power, since Britain's vote to leave the EU in June last year is also contributing to higher inflation in the UK, as it increases the cost of importing goods from overseas more expensive.

BE CONSUMER SAVVY

Rising inflation is constantly eroding the nation's savings, yet the reality is many people don't know how to prevent it. The malaise of consumer awareness over how you can protect your savings from inflation could mean you will see your wealth simply drain away. Over the long term, this could threaten to leave people financially worse off in retirement, especially when combined with continuing-low interest rates and very low wage growth. Of the 4,000 people surveyed by YouGov, more than a quarter (27%) said they believed property was the best way to outpace inflation.

YOUR SPENDING POWER

Many people think Cash ISAs can help maintain their spending power, as opposed to Stocks & Shares ISAs. Just 4% of people said investing in the stock market could help outstrip inflation, while only 3% backed savings invested in a pension. In fact, although they come with greater investment risk, Stocks & Shares ISAs typically offer more protection against inflation than Cash ISAs, but clearly less people are aware of this fact.

SHORT TERM VS LONG TERM

Cash ISAs are more appropriate to save money for the short term but are less suitable for long-term savings, such as for retirement. From April 2017, the amount people can now shelter tax-efficiently in a Cash ISA has risen to £20,000 a year.

With a bigger ISA pot to fill, the danger is that some people will leave more of their long-term savings stuck in cash where it will be eaten away by inflation quite savagely when compared to current interest rates.

COST OF LIVING

Inflation is bad news for savers, as it erodes the purchasing power of your money. Low interest rates also don't help, as this makes it even harder to find returns which actually grow the pot let alone keep pace with rising living costs. Higher inflation also effects bonds as it drives down the price of bonds. These become less attractive because you are locked in at interest rates that may not keep up with the cost of living in years to come.

PROTECTION OPTIONS

One option is index-linked gilts, which are government bonds whose interest payments and value at redemption are adjusted for inflation, but they must be kept for the whole term because, if they are sold before their maturity date, their market value could fall as well as rise, when it comes to their redemption value paid at the end of their terms. Investing in equities can potentially provide better protection against inflation than deposit accounts or bonds that aren't index-linked, because companies do raise their prices to overcome rising costs, which should enable them to keep pace with the rate of inflation over time. However, investing in equities does carry higher risk of losses, therefore, you must be prepared to accept that you could get back less than you put in and that the value of your investment may not keep up with inflation.

Your drawdown checklist

Since the pension reform shake up the latest figures show more than 625,000 pension investors have chosen to flexibly access their pension, taking over £10.8bn in pension income since April 2015. The most popular ways to take a flexible income is considered to be through drawdown.

With an annuity provider you can easily compare the income on offer, but comparing drawdown providers is more complicated. There are many different features to take into account and some are more obvious than others. Here we suggest a checklist to help you through drawdown provider selection.

1 ENSURE A GOOD PORTFOLIO OF INVESTMENTS

In drawdown you are choosing to keep your pension invested, therefore it's important your provider offers you the investments you want.

In a SIPP (Self Invested Personal Pension) you have the flexibility to choose from a huge selection of funds controlled by some of the finest fund managers. You can also select from individual shares, corporate bonds, gilts, investment trusts, ETFs and cash. You choose your own investments and can choose from ready-made portfolios or let an adviser choose the investments for you, for a fee.

Choice is important, as it allows you to choose a portfolio of investments that works for you.

2 CHARGES

Drawdown charges vary dramatically between providers including fees for making withdrawals and trading investments. All charges over time will reduce your fund value, so make sure you find out and understand all costs involved from initial set up to trade charges.

SIPPs normally have no drawdown set up fee, no transfer in fee and no charges for one-off or regular withdrawals, unless your withdrawal closes the account.

3 CAN I HAVE ONLINE ACCOUNT ACCESS?

Many people nowadays choose to manage their finances electronically. Drawdown requires regular monitoring and review, so managing your pension on-line has advantages. Additionally you can view your online investments wherever you are and at a time that suits you.

Many clients also benefit from 24-hour online access from their mobile and tablet apps. You can also manage your plan by phone or post, whichever you prefer.

4 FLEXIBILITY

Probably the major benefit of drawdown is being able to adjust your income in line with your circumstances, in that you decide how much to take and when.

You can start, stop or vary the amount you take at any time. Payments can be made monthly, quarterly, half yearly, annually or as one-off requests and there is no charge to change your preferences. This gives you the flexibility to change your income to meet your needs, or keep within certain tax bands or allowances.

The danger though is not to make excessive withdrawals as this will deplete the fund, leaving you short of income later in retirement.

5 USE ONLINE TOOLS

Many providers now offer the use of interactive online tools, like drawdown calculators, which can help you see how much your pension pot could be worth and how long it is likely to last if taking different levels of income.

Additionally, you can benefit from portfolio analysis tools, which allow you to easily analyse all of the investments you hold.

6 ALWAYS TAKE AND SEE PROFESSIONAL ADVICE

We strongly recommend you understand your options and check your chosen option is suitable for your circumstances: take appropriate advice or guidance if you are at all unsure.

Pension Wise, the government's pension guidance service, provides a free impartial service to help you understand your options at retirement – more on Pension Wise.

7 A REGULATED PROVIDER

Make sure you select a provider, who is regulated by the FCA, giving you the assurance it is well managed and financially strong.

This is particularly important as if you are sold an investment by an unregulated individual or firm you won't have recourse to compensation.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

ISAs - A perfect match with any pension

With up to 45% tax relief given by the government on contributions, pensions are the best way to save for retirement for most people. They offer one of the most tax-efficient ways to build up a retirement pot. Even better, if you are also saving into a workplace pension, it's beneficial to make full use of any employer contributions you receive. In addition to your pension, there are other ways you can boost your retirement pot, should you have the money to invest. ISAs (Individual Savings Accounts) are one of the most attractive ways to save for the future and can complement any pension savings plans. Most professional advisers believe it's not a case of one versus the other, but rather both being considered together when saving for retirement as they offer different benefits. Below, we look at three key reasons why ISAs are an excellent partner for your pension savings.

1. TAX-FREE INCOME

As we mentioned earlier one main benefit of saving into a pension is that you receive up to 45% tax relief, depending on your personal allowance, from the government on what you pay in. This makes them the main tool to use for those looking to achieve ultimate tax-efficiency when saving for retirement. From age 55 (age 57 from 2028), you have the option of making withdrawals and usually up to 25% of this is tax free and the rest is taxed as income.

Those using ISAs have all their UK income and capital gains tax free. This makes ISAs particularly useful for those who expect to be drawing an income from their pension which would move them closer to the higher tax rate threshold when they retire. For example, many investors with both ISAs and pensions , keep their pension income under the higher-rate tax threshold and then turn to their ISA for income to boost their cash flow to avoid the higher rate tax bracket. The same method applies for retirees looking to avoid basic rate tax on their income by keeping their taxable pension income within their personal allowance.

What's more, since ISAs are free from UK tax, any income or capital gains don't even need to be declared on a tax return. From a tax perspective, this makes them easy to administer, when and if self assessment is necessary.

2. FLEXIBILITY

Holding both ISAs and pensions allows you to access money from your savings at different times. When contributing to a pension, your money is locked away until age 55 giving your investments a greater chance to grow. ISAs offer you the flexibility to take money out when you want. This can be particularly useful in certain circumstances. For example, if you're planning to reduce your working hours from the age of 50 and need additional funds, you can use some or all of the funds in your ISA to supplement your income.

3. IMPROVED VALUES

ISAs have come a long way since they were launched in 1999; the amount you could invest then was only £7,000 per tax year. This small annual amount was deemed too small a sum to make any real impact on retirement, as it would take far too long to build a decent sized pot. However, the government has continually taken steps to make ISAs more attractive, including dramatically increasing the amount you can contribute each year.

Today you can invest up to £20,000 in ISAs and quickly build a decent sized retirement pot to go alongside your pension. For example, if you invested the full ISA allowance over the next 10 years, as its current rate, you would have a fund worth £241,409 based on a growth rate of 5% per annum and with no charges or inflation. Based on the current yield of the FTSE 100 (3.78%), this would produce a tax-free annual income of more than £9,000. *Please note, this is a simplified example, in reality investments can fall as well as rise in value so you could get back less than you invest.*

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Venture Capital Trusts: The MIX

Whilst not exactly main stream, there's nothing particularly strange about VCTs (Venture Capital Trusts). Similar to investment trusts, VCTs collect and invest the money of lots of different investors. But unlike investment trusts, VCTs are based on the selection of small UK-based business that are typically not yet listed on the stock market.

The government offers generous tax breaks to those investing in VCTs, because such companies grow and boost the UK economy, but they do carry considerable risk, hence the generous tax advantage.

THE CHANGING FACE OF VCTS

VCTs as an investing sector have been around for more than 20 years. The idea was to support in the early days, very small businesses in need of investment to help them grow.

In November 2015 it was decided companies already in existence for a long time, should no longer receive funding from VCTs. Nowadays, VCTs must invest to develop very young businesses, those typically less than seven years old.

Some VCTs have seen little change by the rule change, as they already backed businesses at a very early stage of their development so it was pretty much business as usual.

Others though have had to change their investment approach and recruit people with the necessary expertise and knowledge in investing in very small UK businesses.

THE MIX POTENTIAL

Change always has difficulties attached, but they can bring with them opportunity. Most VCT managers now appear to be coping well with these new changes.

Many of the former investments made under the old rules are still within their portfolios. These will continue to be held alongside newer investments and provide potential to generate some dividends. Progress is also being made making new investments to help with future success. Given the higher-risk nature of younger, smaller businesses there is the potential for returns to be more volatile in future.

Those VCT managers who haven't adapted as much as their peers still face challenges. There are now fewer good VCTs available and they face more competition to secure the best investments. Historically VCTs have raised a lot of money over the previous years and the managers now need to prove they can invest it in high-quality companies.

OUTLOOK

Generally UK investors are pessimistic towards the UK domestic market. The recent election and continuing Brexit have not helped this. Yet as we have said time and time again, company prospects and the overall earnings of these UK companies are not tied directly to the UK economy.

Companies push on through economic and political storms. Entrepreneurs with great ideas truly believe in their product and will still try to make a success of their business. There are of course some failures, but VCTs attempt to manage this risk through diversification, investing in a range of companies and spreading that risk.

The overview is to look at VCTs as long-term investments. With the knowledge there will be some losses, but also expect to see some of the successes of tomorrow. Investment also comes with 30% tax relief, coupled with tax free dividends, though these are not guaranteed. These are valuable tax reliefs for those happy with this higher risk investment, especially if you have used up your ISA and pension allowances, and they won't necessarily be around forever. Remember you must hold the VCT for five years to keep any tax rebate.

This article is not personal advice. If you are unsure of the suitability of any investment you should seek advice. Remember VCTs are inherently higher risk and you could get back less than you invest. VCTs are therefore aimed at wealthier, sophisticated investors who can afford to take a long-term view. The prospectus of each VCT will give full details of the risks and should be read thoroughly before making an investment. Tax rules change and benefits depend on personal circumstances. VCTs are sophisticated, high-risk long-term investments and their value may fall as well as rise, meaning investors could lose money.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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