e-Update

Winter 2011

Pensions implications

The Autumn Statement from chancellor of the Exchequer George Osborne contained only a few measures relating to pensions and retirement, with the UK's projected £33bn overspend and the resulting extension of the government's austerity measures offering little room for manoeuvre, particularly in terms of positive news.

On the plus side, the full basic state pension will rise to £107.45 a week in April 2012 – however, the state pension age will increase to 67 between April 2026 and April 2028. Research by PWC suggests this increase in the state pension age will cost a 50-year-old £80 per month if they have to fill in these missing two years themselves while a 35-year-old would have to save an additional £35 a month to retire at the same time. This delay in the state pension age is expected to save around £60bn in today's prices between 2026/27 and 2035/36.

Osborne also introduced a new scheme to help finance infrastructure investment in the UK that may indirectly affect a number of retirees. He is aiming to raise £20bn from UK pension funds to invest in infrastructure projects with a view to boosting the economy.

UK pensions funds have, to date, been reluctant investors in infrastructure, in spite of the long-term, index-linked income stream available on some of these projects. Principally this has been down to a lack of expertise in the asset class. A number of commentators have suggested that – if successful – this infrastructure spending plan should provide an effective economic stimulus.

Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.

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Keeping control

A discretionary trust allows the trustees to use the income of the trustat their ‘discretion’, making them useful for dealing with errantheirs. The trust deed may contain provisions for certain beneficiaries,but the trustees usually decide how much is paid to who, how often andwhat conditions might be imposed.

The trustees may be allowed toaccumulate income or the deed may force them to distribute all income.The trustees are liable to tax on income received, with dividendschargeable at a slightly lower rate. Beneficiaries are liable for incometax in the usual way but receive a tax credit for tax paid by trustees.They are not taxed on capital distributions.

New kid on the block

The Junior Isa (Jisa), available from 1 November, replaces the Child Trust Fund (CTF) scheme, which closed to new entrants in January 2011. Unlike with CTFs, the government will make no contributions but the scheme does extend the popular Isa structure to those under 18.

Jisas can be opened in the name of anyone not entitled to a CTF, which includes all those born before 2002 as well as those born after January 2011. Jisas are similar to their ‘senior’ equivalents in that all income and capital gains generated by investments held within them are tax-free. But Jisas differ from Isas in a number of important respects – for example, the annual limit is £3,600 compared with £10,680 for an adult stocks and shares Isa. Jisas also allow switching from cash to shares and vice versa, which is not currently permissible for the senior version. Children will be allowed to hold one cash and one stocks and shares Isa at a time and split the £3,600 limit between the two.

The money cannot be touched until the child reaches 18, but the child can assume management for the trust at 16, should they wish. At 18, the child becomes entitled to the money held within the Jisa, which if it is not encashed, will automatically roll into an Isa. A Jisa could provide a significant step-up for children whose family and friends get together for their benefit. Final values will always be subject to factors such as the chosen underlying assets and the investment environment, both of which can have an impact on how much – or little – a Jisa will return.

The benefit of advice

The mortgage market is highly competitive and lenders constantly bring out new deals. They are required to provide Key Facts and illustrations, but many can only provide information – they cannot give advice on whether their loan or another provider's is best for you. In the UK, residential mortgage advice is regulated by the Financial Services Authority. Advisers use their research skills and sourcing systems to keep up to date with details of all the latest mortgage products so they can find the best rates and deals - and explain which one will best suit your requirements. So, if you want someone to do the hard work, ask an independent expert.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON