

No more compulsory purchase

Britons could soon enjoy greater financial flexibility in retirement thanks to draft legislation released by the UK Treasury. From 6 April 2011, individuals will no longer be forced to buy an annuity with the proceeds of their personal pension scheme at any age. Instead, they will continue to have the options to save it or move to a drawdown (unsecured pension) arrangement in which their pension is left invested and money is taken directly from that pot.

This increase in flexibility will end a compulsory purchase system which was introduced by the previous government. Increasing life expectancy and the fact that older people are working longer, coupled with the current environment of low interest rates and therefore poor annuity rates, were making their original 75-year cut-off appear a little draconian. (a cut off which has now been reset to 77 to give time for this legislation to be finalised.)

The National Association of Pension Funds (NAPF) welcomed the additional flexibility, though they do believe that the new rules will benefit mostly those with larger pension funds. Indeed, many people are still likely to choose an annuity simply to fix their income expectations and enable them to plan. More fundamentally, however, the NAPF warned that most people are simply not saving enough into their pension schemes. They have therefore urged the government to do more to encourage and support strong occupational pension schemes and "creative, flexible" ways for individuals to save for their retirement in the first place.

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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The burden of IHT

Despite the threshold being £650,000 for married couples and civil partners (£325,000 for individuals, tax year 2011/12), the boost in house prices over recent years means inheritance tax (IHT) could still be a concern for many people. Even if the value of your house is below the threshold, other assets can easily take your estate over the top. It is therefore sensible to investigate what you can do to alleviate any potential liability in advance. There are a myriad of options available, with different solutions suiting different people. Given the changes in legislation which the Government keeps looking at to close loopholes, it is always worth seeking comprehensive and professional advice.

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Centenarians on the increase

It has long been accepted that improvements in medicine, lifestyle and an understanding of the effects which habits such as smoking can have on our health means life expectancy is increasing. Future generations are likely to enjoy much longer and healthier lives on average than their predecessors.

However, figures released in April 2011 by the Department of Work & Pensions illustrate more accurately exactly what that means. These figures suggest, of the under 16s already alive today, over a quarter are going to reach the age of 100 - and already, the average new-born female is going to live to over 90.

As Steve Webb, Minister for Pensions, commented at the time, this means that millions of people will spend over a third of their life in retirement. However, as the DWP were quick to point out, this news also coincides with a period during which pension savings are in serious decline.

An ageing population is putting our welfare system under significant pressure as more people need not only pension income but also healthcare, incapacity support and help within the home. You can therefore have little expectation that a State Pension will provide anything other than a safety cushion when the time comes. If your retirement plans include holidays, visiting relatives and treating yourself on occasion, then its time to take control of your savings and start building up a retirement fund of your own.

An interesting start

When your new born child finally arrives, the very last thing you are probably thinking is how much they are going to cost you. However, according to the Liverpool Victoria Cost of a Child survey (2011), you are looking at a 21 year bill of over £210,000. One way to deflect some of the larger future commitments you might find yourself facing is to consider a regular savings arrangement. In many cases, at least to start with, deposit accounts are the first port of call and most banks even offer child-specific accounts. The benefit of these is they can allow irregular payments of spare money and you always know that your capital value is safe. However, the return you get is purely interest so you might want to seek out the highest rate you can find.

