



Individual Savings Accounts – a lost opportunity!

We are all able to invest up to £7,200 each year in equity based Individual Savings Accounts, but as this allowance cannot be carried forward from one year to another this means that for you to benefit from your 2008/09 ISA allowance you must act no later than 5 April 2009.

ISAs offer the opportunity to invest free of any future capital gains tax or income tax liability in qualifying investments. It should however be borne in mind, that any income tax deducted at source cannot be recovered and that if an election is made to place all the allowance on cash deposit, any interest arising will be subject to income tax at 20% until the proceeds are invested in qualifying investments. This provides for the opportunity to secure your 2008/09 ISA allowance without actually investing it, thereby allowing you to invest at a later date when the outlook for investment markets looks more enticing.

We are currently living through very challenging times from an

investment point of view and it is easy to understand why investors are currently reluctant to invest in ISAs. This climate will not continue forever and it is important to understand the tax efficiency that can be achieved over time by exercising the right to utilise your ISA allowance annually. It is not unreasonable, particularly in light of the current investment market lows, that an individual could amass in excess of £100,000 over ten years in a very tax efficient investment structure that has no strings attached.

If you would like to speak with a member of Morley and Scott's Financial Planning Team regarding this opportunity to shield future investment returns from capital gains tax and income tax at perhaps 45% in future, then please email Nicole de la Rouviere, e:nicole.delarouviere@morleyandscott.co.uk who will make the necessary introductions.

Investment portfolio reviews at market lows

There is a danger in the current investment market environment to avoid reviewing investment portfolios due to worries as to how depressing the exercise might be.

Advice in respect of investment portfolios is determined by a number of different factors but typically these boil down to attitude to investment risk and investment selection.

It is widely recognised that an investor's attitude to investment risk is determined by a number of factors, namely fear and greed. We have noticed when speaking to clients, that following the downturn in investment markets over the last eighteen months or so, their attitude to investment risk has reduced. It is therefore important that the asset allocation of their portfolio is adjusted to reflect this change, however, this can only happen if a meeting is arranged to discuss how the portfolio has performed during the downturn.

Another issue which has become all too apparent to us when reviewing investment portfolios, is that market leading funds through 2004, 2005

and 2006 have sometimes begun to significantly underperform over the last two years. The reason for the historic over performance has been due to funds heavy weighting in banks and to a lesser extent insurance companies and it is this sector which has led to such significant under performance over the last eighteen months. When reviewing a portfolio we look to change funds affected in this way for alternative funds with significantly lesser weightings in the financial sector. It is likely to be many years before the world's banks are able to rebuild their balance sheets, and it will therefore be a very long time before share prices recover to their historic highs. Changing funds as suggested above will position investment portfolios for increases in share prices to be capitalised upon.

If you have an investment portfolio that Morley and Scott advises on, or one with a third party firm that you would like a Morley and Scott Financial Planning Manager to review, then please email Nicole de la Rouviere, e:nicole.delarouviere@morleyandscott.co.uk so she can make an appropriate introduction.

A Fixed Income for Life

Guarantees in the financial world seem to be few and far between, however, it is still possible to obtain a 5% income, in many cases tax free, for the rest of your life. Unlike a bond investment, this is not deferred tax that ceases when capital has been returned, tax free income can continue for life.

If income is not required immediately, the capital can appreciate with the assurance that at set times, values are reassessed and if the investment has grown, the income that it can provide ratchets up – it will not decrease. Therefore whilst the value of the investment can go down, the income it provides will not.

This sort of investment typically offers a wide range of investment choice with managed or more cost-effective passive fixed interest funds, multi-manager portfolios or a selection of bespoke managed funds. Switches between funds are free.

The common objective of these investments is that they provide a guaranteed income for life with the ability to pass the remaining funds on to beneficiaries at death. These arrangements are not fixed and it is possible to sell them as one would an ordinary investment, although with a guaranteed income for life at 5% it is difficult to see why.

The Contracting Issue

As part of new pension legislation the government has announced that contracting out will be abolished from 2012 for money purchase schemes. In the past the main reason for contracting out has been to achieve a higher pension at retirement than the State Earnings Retirement Pension Scheme (SERPS) or the Second State Pension (S2P) can provide, usually as a result of higher investment returns.

The Government initially encouraged contracting out by offering rebates to reduce the future burden on the state. These rebates are now of questionable value for money in terms of the benefits given up.

In order to make a decision whether to contract out or not, there are some important issues to bear in mind.

The date when benefits can be taken: Protected Rights can be taken from age 50 (increasing to 55 in April 2010), as opposed to the contracted in state benefits (S2P and SERPS) which cannot be paid until age 65 for men and 60 for women, rising to 65 for all in 2020.

Tax free cash: It is possible to take 25% of the value of a Protected Rights pension yet it is not possible to take a tax free sum in respect of S2P/SERPs.

Control: By contracting out, individuals have control of their pension funds and where they should be invested.

Dependant's Benefits: Both provide for a spouse's pension in the event of death after retirement. However, when there is no surviving spouse under a contracted out scheme, benefits can be paid to other beneficiaries.

Personal considerations are equally important:

Attitude to investment risk – it may be necessary to take a higher risk in order to outperform state benefits.

Age – there may be insufficient time to outperform/equalise state benefits, especially if the market is in a downturn.

Earnings – if earnings are low, it may be appropriate to contract back to take advantage of the rebates.

There is no definitive answer to the contracting in/out question and the right decision can only be reached after a full understanding of how the regulations could affect you and your future aspirations.

Life Settlements

Investors, who are weary of turbulent stock markets, hearing daily horrors from the banking sector and finding saving rates slashed, may now be wishing for an alternative investment that is not affected by the so called credit crunch. The US Life Settlements market offers an attractive and comparatively low risk alternative asset class that is uncorrelated to the stock market.

Life Settlements are similar to Traded Endowments except the legislation in the US decrees that payouts on death cannot be contested after two years. US life policies are purchased from people with a reduced life expectancy, so although the date of the final bond payment is not known, the length of time to maturity is limited. The sum assured and the amount of final bonus are guaranteed.

While the concept may appear slightly unsavoury, the market enables life policy owners who have a shortened life expectancy to access the cash for their policy whilst they are still alive.

This is a market that is worth in excess of \$13bn and is expected to grow over the next few years.

The companies that specialise in this type of investment claim to have exceeded their benchmark return to investors of 8% pa over the past 36 months, and they see no reason why this will not continue. Access to funds can be provided on a monthly basis and investments can be in a choice of currencies. The funds can be accessed via multi-managed funds or bonds and can be held within a Self Invested Personal Pension (SIPP) wrapper.

At the moment this investment is not covered by the FSA Compensation Scheme, although many of the Life Settlement companies have their own protective structures in place such as external valuations, assets held in nominee accounts and being based in the Guernsey jurisdiction for added transparency.

Whilst this type of investment has risks, the underlying business appears to offer a steady return, until of course the pharmaceutical companies create a wonder drug which keeps everyone alive indefinitely, but would the US Government, or any government really want this?

CONTACT

For further advice on any of the areas mentioned in this newsletter, please contact:

Andrew Johnstone

Financial Planning Manager

+44 (0) 20 7387 5868
(London office)

andrew.johnstone@morleyandscott.co.uk

Toni Ambrosini

Financial Planning Manager

+44 (0) 1753 759 000
(Thames Valley office)

toni.ambrosini@morleyandscott.co.uk

Chris Ellis

Financial Planning Manager

+44 (0) 1753 759 000
(Thames Valley office)

chris.ellis@morleyandscott.co.uk

Jacqueline Robinson

Financial Planning Manager

+44 (0) 1489 566 700
(Solent office)

jacqueline.robinson@morleyandscott.co.uk

www.morleyandscott.co.uk



PARTNERING FOR SUCCESS
GMN International is an association of
legally independent accounting firms

Registered to carry on audit work by
the Institute of Chartered Accountants
in England and Wales.

Authorised and regulated by the
Financial Services Authority.

Morley and Scott Financial Planning
is a trading name of Morley and
Scott Chartered Accountants

This newsletter contains general information only
and should not be used as a recommendation for
taking specific action. Clients should always
contact us for professional advice in individual
circumstances.

The information in this newsletter is based on
our understanding of current legislation and is
correct at the time of going to press.