

RISING ISA LIMITS

ISA allowances are set to rise this year, providing an additional incentive for savers. During the current tax year (2010-2011), investors can save up to £10,200 in an ISA. However, from 6 April 2011, ISAs will be linked to inflation. Increases will be based on the Retail Prices Index (RPI) for the September preceding the beginning of each tax year on 6 April.

The index-linking plan was originally announced in the Labour government's March 2010 Budget, and was later confirmed in the Emergency Budget released in June by the coalition government. However, subsequent speculation over the coalition's plans to cut public spending had led to fears the annual amount available to save in ISAs would be frozen. Nevertheless, the government appears keen to encourage individuals to save, despite also taking the decision to cut tax relief on pension contributions.

The Office for National Statistics confirmed that RPI for September 2010 was 4.6%. Once rounded up, this equates to a rise in the region of £480. The maximum annual contribution into an ISA in the next tax year will therefore be £10,680. This can be invested in a stocks-and-shares ISA, or up to half the amount – £5,340 – can be saved in a cash-only ISA, with any remaining allowance available for investment in a stock-and-shares ISA. The ISA allowance was increased in October 2009 for those over 50 years of age, and was subsequently raised in April 2010 for those under 50.

According to the Investment Management Association (IMA), net ISA inflows have averaged more than £400 million since October 2009, and 47% of investors would invest more if the allowance was increased further. Meanwhile, according to HM Revenue & Customs, more than 14.9 million individuals subscribed to ISAs in the last tax year, although this was slightly lower than the previous year, when almost 15.2 million individuals subscribed.

ISAs are tax-efficient vehicles that allow individuals to save and invest without having to pay income tax or capital gains tax. (Some equity funds may be subject to an unrecoverable tax within the fund.) ISAs can be a good way for people to start saving, or to add to their existing savings and investments. If you cannot afford to take advantage of the full annual allowance, it is still worth putting away what you can via a monthly savings plan, which can start from £50 a month. Looking ahead at the annual allowance, it is worth remembering one of the golden rules of ISA investing – use it or lose it.

Call us to discuss your options.

WELCOME

This newsletter is designed to keep you, our valued client, up to speed with what's going on in the financial world and at PIMS

2011 promises to be an interesting year for the financial services world. There are increases to ISA allowances, there are changes to the pensions and savings worlds and investors continue to face uncertainty.

As you can probably guess from the many contradictory reactions to the spending cuts, no one can really tell which way the economy will go in the short term. As an investor, therefore, you could be forgiven for not knowing how to

position your portfolio whilst we find out. However, some rules never change and the first, making sure your holdings are well diversified, is exactly for times like this. Over expose yourself to a single asset class – say, equities – and its performance will mirror only the fortunes of the equity market. However, if you choose a range of asset classes from across different countries, the different elements will all perform differently. If one does badly, the chances are another will do better and compensate for some of that downside.

Best regards,
Glynn Downton, Neil Brenchley & Kevin Mullins

ECONOMIC UPDATE

The UK is still living with the fallout from the financial crisis and the recession. Inflation continues to rise, the economy has shrunk, unemployment has increased and petrol prices have reached record levels. The Bank of England (BoE) expects inflation to continue its upward trajectory, peaking between 4% and 5% in the near term. Although the BoE believes inflation should eventually subside to its government-set target of 2% during 2012, it appears that the UK will have to endure a painful period of high prices and sluggish growth in the meantime. The rate of inflation reached 4% during January, fuelled by rising prices for food, oil and gas, an increase in VAT and a weak pound.

It is not yet clear whether British households will tolerate the squeeze on their purchasing power, or whether wages will have to rise. As yet, there is nothing to suggest that inflationary pressures are feeding through to salary increases. Average earnings grew at a rate of 1.8% in the three months to December, compared with growth of 2.1% in the three months to November. UK unemployment rose to almost 2.5 million in the final three months of 2010. The rate of unemployment currently stands at 7.9%, although youth unemployment is running at 20.5%.

The BoE is facing increasing pressure to increase interest rates as inflation continues to soar. However, BoE governor Mervyn King does not want to raise interest rates too quickly for fear of hurting the economic recovery. Mr King



acknowledged that interest rates cannot remain at their current low of 0.5%, stating, "It is clear that at some point the bank rate will have to go up". Nevertheless, he highlighted the "real differences" in opinion within the BoE's Monetary Policy Committee (MPC), referring to a "wider than usual range of views" on inflation and economic growth.

The BoE warned that the economic recovery is "unlikely to be smooth", but does not appear to expect the UK to experience a double-dip recession. The economy contracted by 0.5% during the final three months of 2010 and the outlook for economic growth has deteriorated. Sluggish economic growth could "push inflation well below target"; meanwhile, the BoE has stressed that "the outlook for growth remains highly uncertain". Looking ahead, an unappealing combination of government spending cuts and the intensifying squeeze on households' purchasing power appears likely to continue to dilute the potency of the economic recovery.

In these uncertain times Professional independent advice is more important than ever.

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SAVERS BENEFIT FROM INCREASED PROTECTION LIMIT

Savers may now receive greater compensation if they lose money when their bank or building society collapses.

On 31st December 2010, the Financial Services Compensation Scheme (FSCS) increased its claims limit for deposits from £50,000 to €100,000. The FSA previously confirmed that the fixed sterling equivalent of this limit would be set at £85,000 per person, per authorised firm. However, this fixed value could be reviewed if there are large scale fluctuations in the exchange rate.

The limit was previously increased in October 2008 from £35,000 in response to the banking crisis, although savers still had to wait three months to receive their money. Now, under the new legislation, all compensation payments must be made within 20 days, and the aim is for claimants to receive their money in seven days.

Savers will also benefit from gross pay-outs, as any outstanding loans or debts with the same financial institution will no longer be deducted from the deposits paid out. However, the temporary rules which provided separate

protection to individuals with money in two merged financial institutions have now ended.

While the FSCS covers deposits with UK banks and subsidiaries of foreign banks in the UK, deposits in branches of EEA banks within the UK will be covered by the scheme in the country where that bank is headquartered.

The FSCS will run a £4 million publicity campaign from January to March to publicise the protection available and the new limits.

CHANGES TO PENSION LEGISLATION

Britons are now set to 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 by the age of 75 with the proceeds of their Personal Pension. Instead, they will continue to have the options to save it or move to a drawdown arrangement in which their pension is left invested and money is taken directly from that pot.

The increase in flexibility will end the compulsory purchase system. 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) had made the 75-year cut-off appear unrealistic - and a little draconian. The National Association of Pension

Funds (NAPF) therefore welcomed the additional flexibility, though they do believe that the new rules will most likely benefit those with larger pension pots. 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.



SAVING FOR CHILDREN

When your first child arrives, the very last thing you are probably thinking about is how much they are going to cost you. However, according to the Liverpool Victoria Cost of a Child survey (2010), you are looking at a 21 year bill of over £200,000. Saving small amounts regularly is therefore one way to deflect some of the larger future commitments which you might find yourself facing.

In many cases, at least to start with, deposit accounts are the first port of call and most banks offer child-specific accounts. The benefit of these is they can allow irregular payments of spare money. However, the return you get is purely interest so make sure you seek out the highest one you can find.



THE RISE OF ETHICAL INVESTING

Ethical – or Socially Responsible Investment (SRI) – has moved from the sidelines to become an increasingly credible option for forward-thinking investors. In the past, when making the decision to invest ethically, many investors had to make a decision between profits and principles. Ethical screening focused on negative, rather than positive, criteria, and the emphasis was to avoid the "bad" rather than seek out those making a positive contribution to society.

However, ethical investment strategies have evolved. In addition to the routine analysis conducted by most investment houses, an SRI approach involves asking questions that might not usually be asked. Indeed, it can also uncover crucial information – positive and negative – that might affect a company's share price. Used effectively, it does not just screen out undesirable companies, it also finds the desirable. Positive social themes can provide valuable stimuli for product innovation which leads to share-price appreciation. Asking challenging questions also provides

opportunities for fund managers to identify potential rewards at an early stage in their cycle.

For example, recognising that environmental issues are now right at the centre of worldwide economic and social policy, companies at the forefront of product development and environmental services are likely to get a boost. SRI is no longer a niche area and, with the right approach, investors do not have to accept volatile or disappointing returns to uphold their principles.



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