2plan® wealth management

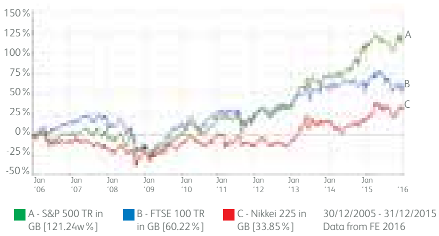
financial Newsletter

Edition 18 – Spring 2016

What is the British Pound worth vs. Euro?

What is the British Pound worth vs. Dollar?

World stock market performance over last ten years.



KEY FACTS & FIGURES – The UK Economy		
BoE Base Rate	0.5%	Jan 2016
Unemployment	5.1%	Dec 2015
Inflation (CPI)	0.3%	Jan 2016

Agenda

– Key economic and market update
– The perfect storm
– Single-Tier State Pension – financial planning considerations
– Market outlook – Architas
– Market outlook – Fidelity
– Market outlook – Invesco Perpetual
– Market outlook - Rathbones
– Using your ISA allowance
– Buy to let changes
– Estate planning and IHT
– Considerations for tax-year end

Base rate remains stable

The Bank of England's Monetary Policy overwhelmingly voted to again keep the base rate at 0.5%.

UK economic outlook

The UK economy is estimated to have grown by 0.5% in the fourth quarter of 2015 (October – December), compared to growth of 0.4% in the previous quarter.

Output increased in two of the main industrial groupings within the economy in quarter 4. Services increased by 0.7% and agriculture increased by 0.6%. Production output declined by 0.2% over the period and construction fell by 0.1%.

GDP was 1.9% higher in quarter 4 compared with the same quarter in 2014. GDP increased by 2.2% in total in 2015, but this figure was down on 2014's growth rate of 2.9%.

Inflation

- The Consumer Prices Index (CPI) increased by 0.3% in the year to January 2016, compared to a rise of 0.2% in the year to December 2015.
- This is the third consecutive month of small increases, with the rate in January 2016 being the same as it was in January 2015.
- The main contributors to the rise in the rate were motor fuels, and to a lesser extent food, alcoholic beverages and clothing.
- Air fare prices partially offset the rise in the rate, falling by more than they did a year ago. This followed a large increase in prices in December 2015.

UK unemployment

- The number of unemployed people decreased by 60,000 to 1.69 million over the past quarter (to December 2015), the Office for National Statistics said.
- The number of people aged from 16 to 64 not in the labour force (economically inactive) was 8.88 million during this period, down 88,000 on the previous quarter.
- The total number of people now in work is 31.42 million people, a rise of 205,000 on the previous quarter and 521,000 more than a year earlier.
- 74.1% of all people aged 16 to 64 were classed as employed.

The perfect storm

On 31 December 2012, the financial services industry saw the full implementation of the Retail Distribution Review (RDR). Many readers will be aware of this from discussions with their 2plan wealth management Independent Financial Adviser but it is worthwhile recapping on what has happened and the position we all find ourselves in today.

Firstly, the main objectives of the RDR were to:

- Increase the professionalism of financial advisers through qualifications as advisers had to be qualified to Diploma level by this date or they would no longer be permitted to provide advice for investment and pension planning;
- Change the way advisers were remunerated by banning commission with regard to investment and pension products to avoid potential bias, resulting in the client being required to pay an advice fee – referred to as an "Adviser Charge"; and
- For an adviser to describe themselves as either being Independent, where they can choose providers and products from across the whole of the market, or Restricted, where as the names suggests, they can only choose certain product providers and products.

The RDR also saw many advisers decide to leave the industry. Around 10 years ago there were approximately 100,000 advisers but this number has now shrunk to just over 21,000. As a result of this, coupled with advisers reducing the amount of clients they work with, an unintended consequence of the RDR is that there are now whole masses of the UK population that find themselves with no access to financial advice.

Of course, financial advice has never been free but whereas in the past many consumers may have gone to their bank for advice the banks have now dismantled their advice arms due to the costs of regulation and the damage to their reputations caused by poor selling practices, so consumers who are not willing to or not able to pay for advice now have nowhere to turn.

To compound this further there has been a continual increase in the cost of regulation for financial advisers to remain in their profession. These rises have brought about increased pressure on advisers to choose only to work with clients who can afford to pay for financial advice.

Advice firms are regulated by the Financial Conduct Authority (FCA), which also encompasses the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS). These organisations settle disputes between consumers and UK financial services businesses, as well as providing a fund of last resort.

Financial advisers fund these bodies through direct fees and levies which necessitates investment in compliance staff and equipment. The FSCS levies have now reached an all-time high and have become unacceptable and unsustainable for many advisers to continue in business.

There are a number of causes of this. With interest rates being so low for years now and returns on savings so poor this has led to some consumers seeking higher returns by investing in products which carry a higher risk. This opened the door to unscrupulous advisers and scams, providing poor advice relating to areas such as overseas investments in unregulated schemes, pension transfers and Self Invested Personal Pensions (SIPPs) where some consumers have lost their hard earned savings.

This has resulted in a huge increase in consumer complaints and has seen millions of pounds paid out in compensation. This in turn has had a direct impact on the cost of regulation, for example dramatic increases in the FSCS levy paid by advisers which have soared to their highest ever levels.

In reality, the situation has become one where the "good are paying for the bad" in how regulated firms are penalised for being careful and diligent when another adviser is reckless or worse. Ultimately, advisers are being forced to pass some of these costs onto the consumer so advice fees only look set to increase in the future.

This perfect storm has meant some advisers have been forced to choose only to work with those clients who are willing and able to pay for financial advice. For those who are unable to or choose not to, they now find themselves shut out from the financial advice arena.

So what has happened now? In August 2015 HM Treasury and the FCA launched the Financial Advice Market Review (FAMR) to examine how financial advice could work better for consumers.

Its aim is to look across the financial services market to improve the availability of advice to people, particularly those who do not have significant wealth or income.

Many surveys and much research has been conducted over recent months and around the time of the Budget this year the Treasury and the FCA will deliver their findings into how they believe they will solve this problem.

This must also include how to deal with the cost of regulation and ultimately how the mass population of people who cannot afford to pay for financial advice will once again be able to receive it. If a solution is not found then we will end up for decades to come – where we find ourselves today – where financial advice has become the luxury of the chosen few.

Single-Tier State Pension – financial planning considerations

As we move towards the end of the tax year minds turn towards the introduction of the Single-Tier State Pension from April 2016. This is the most significant change to the State Pension in a generation and has major implications for most clients financial planning.

Why is an understanding of the State Pension so fundamental with regard to post retirement planning? Well it provides:

- A Government backed "guaranteed" income
- It helps to meet essential expenditure in retirement
- It's protected (currently) by "triple-lock" in terms of increasing pension
- It will impact on cashflow planning – paid gross but taxable
- And it will have an interaction with other tax wrappers (Pensions / OEICS/ ISAs/ Bonds etc) in retirement

With the introduction of the Single-Tier State Pension clients and their financial advisers need to be confident in their ability to answer each of the following questions and incorporate it into their retirement planning;

- When will my State Pension be paid?
- How much will it be?
- How can it be maximised?
- On what basis can it be deferred?
- What, if anything, will be inherited by my spouse or civil partner?

Let us consider each of these key areas in turn:

Changes to State Pension age

We are currently in the process of increasing the women's State Pension age (SPA) to age 65 by December 2018. It will then be equalised at age 66 by December 2020 for both males and females. It then increases to age 67 between 2026 and 2028.

Future changes will be reviewed at least every five years around the principle that people should maintain a specific proportion of adult life receiving the State Pension. The first review will be in 2017 and subsequent reviews will be at least every five years. There should however be 10 years notice of any change in the SPA as a result of a review.

How much will it be – the foundation amount

Any individual who reaches SPA before 6th April 2016 will receive a pension based on current pre-6th April 2016 rules. This will be:

- Any man born before 6th April 1951
- Any woman born before 6th April 1953

The Single-Tier State Pension will, however, replace the basic State Pension, the additional State Pension and the savings credit element of pension credit for those reaching SPA on or after 6th April 2016. The maximum amount will start at £155.65 per week. This will only be available if you have built up 35 qualifying years of national insurance contributions (NICs). The minimum number of qualifying years will be 10 years. However, there will be transitional arrangements to protect rights accrued under the current system up to the start date of the new Single-Tier Pension – this entitlement is known as the "foundation amount", as it may be higher. The foundation amount is the higher of:

- The pension value based on the number of qualifying years (maximum 35) before the changeover, the 35 year accrual period and the single-tier rate less a rebate derived amount to cover periods when you may have been contracted out; and
- The pension value accrued under the existing regime (which includes basic State Pension and additional State Pension)

Where an individual's foundation amount is less than the full single-tier amount at 6th April 2016, each additional qualifying year will accrue further State Pension entitlement of 1/35th of the full amount of the Single-Tier State Pension. Where the individual's "foundation amount" exceeds the full Single-Tier State Pension, the excess will be treated as a "protected payment" and will be revalued to and from SPA by the Consumer Price Index (CPI).

It is currently possible for those over age 55 to request a State Pension forecast based on the foundation amount, which also includes SPA, number of qualifying years and contracted out deduction, albeit the statement does not explain how the figures are arrived at!

Deferral of State Pension

For those that reach SPA on or after 6th April 2016 the terms for deferring the State Pension become less attractive. The individual will need to defer taking the State Pension by at least nine weeks and the rate of increase in deferral will be reduced to 1% for every nine weeks deferred (5.8% for every year).

There will also be no option to take the deferred amount as a lump sum. It will not be possible for a surviving spouse or civil partner to inherit deferred State Pension and the deceased's estate may only be able to claim up to three month's arrears of their State Pension.

Inheriting the State Pension

In another major change the amount of Single-Tier State Pension will usually be based on an individual's own NI record only. However, in some limited circumstances it may still be possible to inherit some State Pension through a spouse or civil partner:

- Inheriting additional State Pension, where the partner reached SPA or died before 6th April 2016
- Inheriting a "protected payment", where the partner reached SPA or dies under SPA on or after 6th April 2016
- Married women or widows who opted to pay the reduced rate election and who qualify for a "safeguard amount" which is higher than the pension based on their own NICs record

Summary

The State Pension is an integral part of post retirement planning for all individuals, albeit it is more important for some than others. There are significant changes to State Pensions over the coming years in terms of:

- The SPA increasing
- The level of pension will be on a different basis post 6th April 2016
- Deferral rules will be less attractive
- Ability to top up via class 3A NICs is limited
- The benefits for spouses/civil partners will be limited

For any client planning for retirement an understanding of these changes and their impact are fundamental to the advice process. A starting point is to obtain a copy of your (those over age 55) latest State Pension forecast and discuss the potential impact with an adviser.

Written by Andy Zanelli, Head of Technical Consultancy – AXA Wealth.

Market outlook – Architas

It is an understatement to say that the beginning of the year has been difficult for markets -news has been dominated by unresolved issues from last year including China's economic deceleration and the plunging oil price.

Things look generally gloomy at present, but we believe that in times like these it pays to remind oneself that cycles turn, and volatility such as we've witnessed invariably creates opportunity. While we remain mindful of how unclear the current situation is we do have some thoughts on the year ahead:

- In the UK the 'Brexit' debate is likely to generate significant uncertainty – over and above that caused by economic conditions - so we are tilting the equity portions of our portfolios towards areas less likely to be affected by the outcome of the EU referendum.
- We are uncertain about what direction markets will take in the US. Although interest rates are moving towards "normal" levels and their consumer confidence is rising as unemployment falls, continued deflationary pressures and worries over China could stall a potential recovery.
- We are optimistic about Europe's recovery and we expect growth to remain steady, supported by low oil prices and weaker exchange rates.
- Despite significant falls experienced this year, we are positive about Japan's stock market due to the continued improvements in corporate governance and structural reform, as well as on-going Bank of Japan quantitative easing (QE) measures.
- In China there could be sustained deceleration in growth and further devaluation of the yuan.
- We remain cautious about investing in emerging markets because of the continued decline in oil and commodities, which is having a disproportionate effect in this sector. However, attractive valuations might offer some support in the event of further economic downside, and could rebound if there was to be a glimmer of a recovery.

What does this mean for investors?

In times of market stress, patience and discipline become even more important, as does remaining diversified and making sure that your actions are not knee-jerk responses to shorter-term market moves. As such, we continue to believe in the basic principle of diversification across asset classes, currencies, regions and investment managers.

Written by Sheldon MacDonald, Senior Investment Manager – Architas.

Market outlook – Fidelity

2016 promises to be a better year for equities.

One of the key stories in 2015 was the global threat of deflation that originated in the emerging markets and was most visible in languishing commodity prices. Deflation is very much a double-edged sword; it can have a significantly detrimental economic impact, but it can also kick-start regenerative economic forces.

In the US, continuing labour market strength resulting in both job and wage growth, raises real incomes. The economy has created over 200,000 jobs a month for 67 months in a row now. Nominal income is growing at 5% and with commodity and oil weakness keeping inflation subdued, the strength of the US consumer will likely remain a theme for the foreseeable future.*

On the other hand, manufacturing remains troubled globally – as is borne out by disappointing data emanating from both China and the US. In a low growth world, with plenty of excess capacity, this trend is unlikely to reverse any time soon.

The prospects for Europe are gradually improving. Even if still modest, the recovery in domestic demand in Europe looks more secure than in the past. The European Central Bank's insistence on furthering its loose monetary policy means there is little policy risk to this domestic recovery, other than the perennial risk from the periphery in the form of sudden tensions in Greece or Portugal.

In a world where beta is scarce, investors looking for returns should look towards innovation. Disruptive innovators will transform global equity markets, creating a new environment in which US leadership will continue to thrive. The Nasdaq will be at the heart of this story as it remains best placed to benefit from the disruptive forces emanating from within information technology and biotechnology - sectors where we continue to see strong earnings momentum.

**Figures as at December 2015.*

Written by Dominic Rossi, Global CIO, Equities – Fidelity.

Market outlook – Invesco Perpetual

What can we expect from fixed interest markets in 2016?

Our expectations for bond market returns through 2016 continue to be modest and we need to manage our expectations in light of this. In 2015 we saw some volatility, particularly within bond markets, and yields are higher than at the start of 2015. One needs to be careful though, whilst the bond market as a whole is less expensive, bond yields are still very low and in many cases the yield increase of bonds we would want to buy has been modest. So whilst arguably we are beginning 2016 in a slightly stronger position than 2015 we remain cautious.

We believe that we are at an inflection point where we are moving from a market dominated by the echoes of the Global Financial Crisis in 2008 to one that is approaching normality. Since 2008 the focus has been on capturing distressed opportunities within bonds that trade with credit risk or the risk of default. As the market has ebbed and flowed between periods of "risk on" and "risk off" we believe that the best opportunities to exploit credit risk have been within financial credit and peripheral European sovereign bonds and this is where we have held some of our larger positions. As the market normalises we would expect to see an increasing focus on the macro-economic cycle and the opportunities that this presents.

For our mixed asset funds we currently like equity as a source of income - the very low level of bond yields presents a very low hurdle rate for equities to outperform and over the medium term we believe there are all sorts of tailwinds supportive of the asset class. Given the potential headwinds facing bond markets we are defensive across all the funds. We are maintaining a low duration position- duration being the sensitivity of the bond price to a change in interest rates - preferring to take credit rather than interest rate risk.

That being said we also think it is important for us to not stretch for yield because the market is simply not compensating us for doing so. In terms of positioning this means we are focused on the better quality end of the high yield bond market, some investment grade corporate bonds and the financial sector. Against this we have a lot of liquidity across the board. This gives us a lot of flexibility so if volatility picks up, we are well positioned to take advantage of it.

Written by Henley Fixed Interest team.

Market outlook – Rathbones

The UK equity market for 2016

The FTSE 100 has been dragged down by large mining and oil companies whose cash flows have been dented by massive falls in the prices of oil and other industrial commodities, such as copper. Meanwhile, the mid-sized and smaller companies tend to be more geared to western economic growth, particularly the UK which has seen reasonable growth.

We believe 2016 will be more volatile for all parts of the market due to the political wrangling ahead of the referendum on the UK's membership of the EU. We prefer foreign assets to the UK because of this.

BREXIT – the likely impact on UK equities

We believe the UK leaving the EU would be effectively neutral overall. However, this doesn't mean markets will be so benign about the prospect. If Britons do vote to disentangle themselves from the continent, it could usher in a lot of uncertainty.

Many foreign investors would likely withdraw from the UK, sending asset prices down, if they thought there was a fair chance of a Brexit. While the referendum is expected to come in 2017, most of the politicking will happen this year.

UK interest rates

We think the central bank will probably sit on its hands this year. Inflation remains muted in the UK after oil prices fell almost 70% in 18 months. Meanwhile, supermarkets fight a cutthroat price war for market share that appears unlikely to end soon.

Also, the US Federal Reserve's interest rate hikes push up gilt yields through market forces, which have the same effect that a Bank of England rate increase would. We are sticking to bonds issued by large companies with strong balance sheets, as well as shorter-term government debt, which is less affected by interest rate rises.

China's potential impact on global markets in 2016

Chinese GDP growth will continue to slow, as it has over the past few years. That will lower the amount of industrial metals and oil needed worldwide, putting a dampener on commodity prices. It will also create a headwind for countries with extensive trade links with the Asian giant, particularly Germany and Southeast Asian nations. Despite this gloom, remember that China's economy is still much larger than it used to be, and it is moving from low-value industry to higher-value tech products and consumer services. We are investing in funds that back companies likely to win out of this shift.

Written by Stephen Bennett, Investment Director – Rathbones.

Using your ISA allowance

An Individual Savings Account (ISA) is a very tax efficient way to save or invest. If you haven't used up your annual ISA allowance for 2015/16, you have until 5th April to do so.

The ISA allowance now stands at £15,240 – all of which can be invested into a Cash ISA, Stocks and Shares ISA or combination of the two. This figure has risen almost 30% from the 2013/14 allowance of £11,520 (of which only £5,760 could be invested in a Cash ISA).

Unlike some other investments your returns are not subject to tax. That means every pound saved (within your annual allowance) will be sheltered from the taxman.

And unlike certain personal allowances (such as your pension annual allowance) you cannot carry any unused ISA allowance over to the following tax year. That makes it doubly important to invest your full allowance within the appropriate tax year.

In previous years, if you had used up your annual ISA limit but then made a withdrawal during the same tax year, you'd be unable to replace it. As of April 2015, you now have the freedom to take money out, and put it back in later in the year without losing any of your tax-free entitlement. That means you needn't worry about missing out on lost interest if you need to access your savings on a short-term basis, but can afford to replace it later.

You are now also able to transfer between a Stocks and Shares ISA and Cash ISA – and vice versa - whereas previously you could only transfer a Cash ISA to Stocks and Shares and ISA.

Stocks and Shares ISA can hold a variety of "funds" and the decision of where to invest your money will be based on your individual "attitude to investment risk". Before making any decision, ensure that you are comfortable with any investment risks involved and that these match your "risk profile".

If you haven't used up your ISA allowance for 2015/16 speak to your 2plan wealth management Independent Financial Adviser to discuss the options that are available to you.

Buy to let changes

The recent Autumn statement saw significant changes announced by the Government to the Buy to let market that will impact both upon individuals who own Buy to let properties and those who are considering making such an investment.

Landlords can currently deduct mortgage interest from their rental income before calculating the amount of tax that is to be paid. This means that landlords are able to claim tax relief on their mortgage interest payments at their marginal rate of tax. A basic rate taxpayer would get 20 per cent tax relief, but those at a higher rate would receive 40 per cent relief, while top-rate taxpayers could claim 45 per cent.

However, from April 2017 tax relief on Buy to let mortgage interest will gradually be reduced. This will be phased in over a four-year period that will result in tax relief only being available at the basic rate of income tax from April 2020.

The Nationwide Building Society recently published estimated figures of how a typical landlord's profits might be hit as a result of the changes. A landlord with a £150,000 Buy to let mortgage on a property worth £200,000, receiving a monthly rent of £800, would currently have a net profit of around £2,160 a year. Under the new system, their net profit would instead be reduced to £960.

Landlords can also currently claim 10% of their rent as tax relief for wear and tear. From April 2016 this allowance is being replaced by a system that only allows them to claim tax relief when they replace furnishings. It is important to note that these changes apply only to individuals who own a Buy to let property, as homes owned within a company structure are not affected by the changes.

You should contact your 2plan wealth management Independent Financial Adviser should you wish to discuss how these changes may affect you.

Estate planning and IHT

In theory it is very simple: to avoid any Inheritance Tax (IHT) you need to ensure that on death the value of your estate is less than the available nil rate band, which from the 2017/18 tax year also includes the new residence band that will be introduced.

In reality however, life does not happen that way:

- You do not know when you are going to die;
- You need to make provision for your spouse/partner;
- Like most people, you are probably wary of making lifetime gifts of capital you may need in later life to cover care costs;
- Even if you can make the lifetime gifts, you may not think it wise to do so while the recipients are still relatively young; and
- It may be impossible to make sufficient lifetime gifts because you need a roof over your (and your spouse or civil partner) head and income from your investments.

Estate planning is about trying to find compromises between the simple theory and the awkward reality, made the more difficult by a range of anti-avoidance provisions. Estate planning will frequently involve a holistic approach – for example, your retirement planning may have consequences for your eventual IHT liability.

The tools of estate planning include:

- A carefully drafted, up-to-date will which is normally the cornerstone of estate planning.
- Lifetime gifts are favourably treated under the IHT rules, particularly outright gifts. In most instances they will attract no tax when they are made and none if you survive for the following seven years after the gift is made.
- Trusts provide a way of controlling gifts by interposing a third party, the trustees, between you and your beneficiaries. You can choose the trustees and can be one yourself, if you wish. The trustees' actions are governed by the terms of the trust that you create to receive the gift. These can be as rigid or as flexible as you want.
- Exemptions are generally small (e.g. the £3,000 annual gift exemption), but their regular use can help whittle down your taxable estate. The normal expenditure gifts exemption is a good example: giving away investment income that you would otherwise allow to accumulate is a straightforward and painless way to trim your estate.
- Pension arrangements are about much more than just providing your retirement income. For example, the lump sum death benefits under most pension arrangements are free of IHT (so are best not directed to your spouse or civil partner who would not suffer tax anyway). In retirement, a solid pension income may mean it is that much easier to make lifetime gifts or take advantage of the normal expenditure gifts exemption.
- If planning cannot eliminate all of the potential IHT liability on your estate – and usually it will not – then life assurance can be a valuable backstop. IHT is due six months after the end of the month of death and an appropriate life policy can help your surviving loved ones pay that bill.

Your 2plan wealth management Independent Financial Adviser can advise you on how best to manage your assets and investments for a better financial future – which can extend to beneficiaries, such as offspring and loved ones.

By planning ahead you can therefore control and limit the effect that IHT can have your chosen beneficiaries.

Considerations for tax-year end

With the 5th April fast approaching, this could be a good time to review your financial goals, particularly as there are some big changes to ISAs and pensions on the way.

It seems like every tax year now starts with a change to the various rules affecting savings and investment and next year is no exception.

From 6th April, your first £1,000 in interest payments* (£500 for higher-rate taxpayers and zero for upper-rate taxpayers) and £5,000 in dividend payments will be tax free.

Here we consider some of the tax planning opportunities when investing in Individual Savings Account (ISAs) and pensions.

Long-term ISA advantages

Using an ISA means no capital gains tax on growth, so even if your investments rise significantly in value you won't face a bill from the taxman. There's also no capital gains tax on growth or dividends. And upon death, your surviving spouse or civil partner is now able to inherit an additional permitted subscription limit equal to the value of the ISA at time of death. This is in addition to the survivor's own annual ISA allowance.

In fact, you don't even have to declare your ISAs on a tax return – and if you have to fill one of these out, you'll know this is a benefit worth having in its own right. That's why we think the new interest and dividend rules should simply be seen as a bonus for ISA investors. They could reduce the tax you pay on any money left over once you've used your full allowance.

It's worth remembering you can invest £15,240 per person in an ISA this tax year, so it may not take long to build up a significant sum. What's more, children have their own Junior ISA allowance of £4,080. Although these accounts can't be accessed until the child is 18, they offer similar tax advantages to an adult ISA, so you could use them to build up your children's savings which could make a useful contribution to university fees or house deposit.

The tax benefits of pensions

Turning to pensions, we saw major changes (and some welcome good news) at the start of this tax year, with the introduction of the "pension freedoms". These allow people to set up their retirement income in the way that's right for them – using everything from annuities to full withdrawal, or even a combination of income sources. And, of course, pensions still offer the same tax benefits that have attracted savers for years. You get:

- Tax relief to boost your contributions when the money goes in
- Tax-efficient growth over the years
- The option of receiving a 25% tax-free lump sum when you start taking an income.

Key considerations for higher earners

There's now more change on the way, though the new rules may not be so positive. They affect the annual allowance (the maximum contributions that can receive tax relief each year) and the lifetime allowance (the maximum you can build up in pensions before you are hit with an additional tax charge).

From 6th April, the annual allowance will be cut on a sliding scale for anyone earning over £150,000. The measure will restrict pensions tax relief by introducing a tapered reduction in the amount of the annual allowance for individuals with income (including the value of any pension contributions) of over £150,000 and who have an income (excluding pension contributions) in excess of £110,000. You lose £1 for every £2 you earn over this level each year, including your pension contributions. This can reduce the allowance from £40,000 to just £10,000. At the same time, the lifetime allowance will be cut from £1.25 million to £1 million.

So what can you do about this? If you're likely to be affected by the annual allowance change, talk to your 2plan wealth management Independent Financial Adviser (IFA) about maximising your pension contributions this year. You could potentially put aside up to three years' worth of allowances (thanks to a process called 'carry forward') and still receive tax relief, as long as the total investment doesn't exceed 100% of your earnings. There's also a one-off £40,000 extra allowance that was introduced when this change was announced in July 2015.

In terms of the lifetime allowance, there's the option of "transitional protection" for those who already hold around £1 million in their pensions. It can be complicated to set up, so please talk to your 2plan wealth management IFA if you think you could benefit from it.

More change on the way?

Whilst we've focused on higher earners so far, there are also good reasons for most people to make the most of their pensions. One of the most important reasons is that tax relief gives contributions a real boost, as a £40,000 investment only costs a basic-rate taxpayer £32,000 or a higher-rate taxpayer £24,000.

There is, however, some speculation that the Chancellor may announce changes to the tax-relief rules in the forthcoming Budget in mid-March. Given the potential changes, if you were thinking about topping up your pension, it may be advisable to consider making pension contributions ahead of any Budget announcement. Most importantly, you should discuss your individual circumstances with your 2plan wealth management IFA.

Understanding risk

Of course, deciding to put your money in an ISA or pension is only one of your decisions. You also need to think about where to invest.

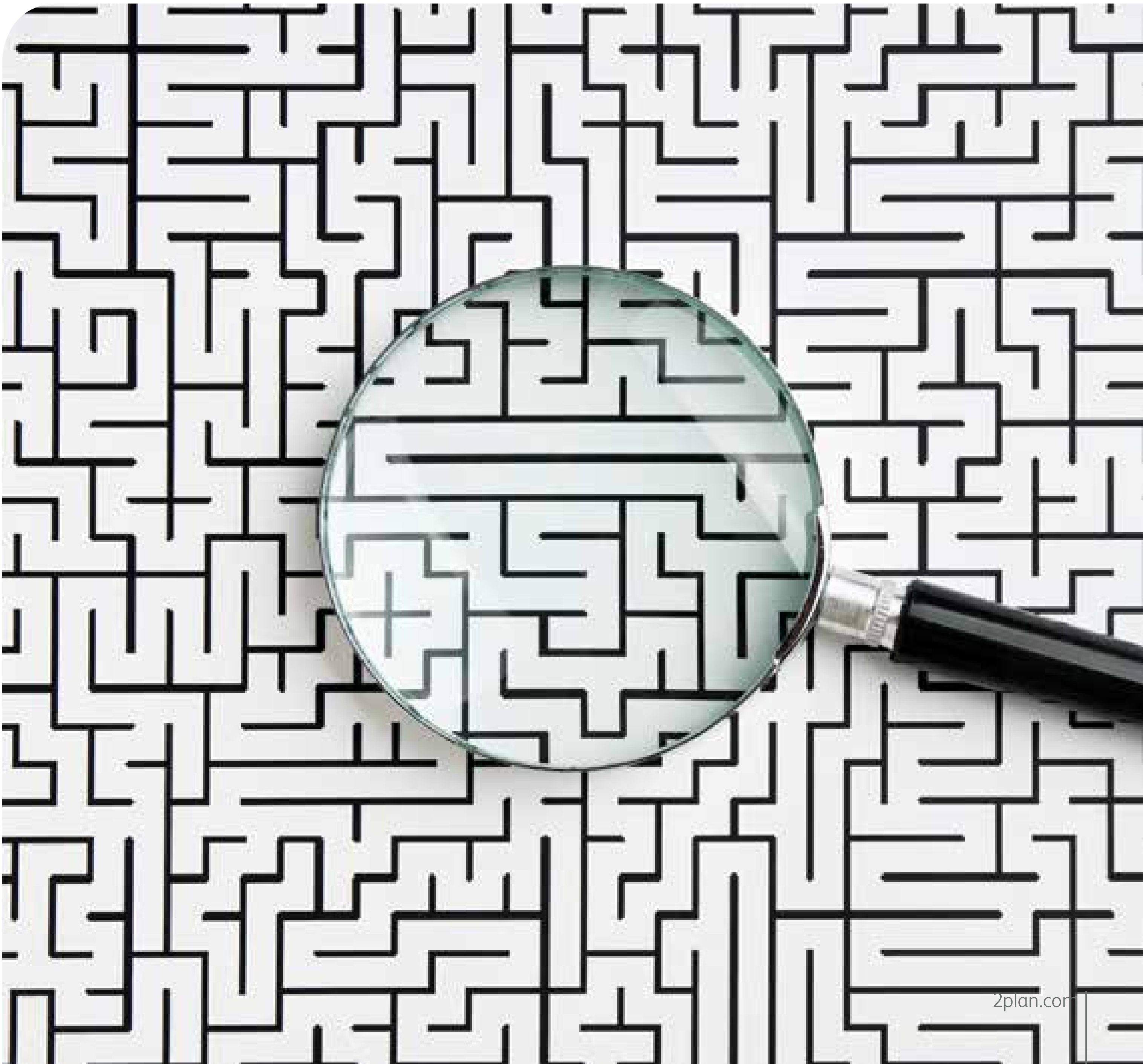
Shares and bonds can fall in value, but they also offer greater potential for growth. The thing to remember is that those investments are for the long term. This is another area where your 2plan wealth management IFA can play a key role, as they will stay focused on the big picture and ensure you are making decisions that are in your long-term best interests.

Looking at your entire portfolio

As a final thought, please don't forget your existing portfolio. If you're already talking to your adviser about your investments, it could be a perfect opportunity to review and rebalance what you hold. In the long run, ensuring that your portfolio continues to meet your needs and situation can make a big difference in helping you achieve your financial goals.

**Please note that interest distributions from funds will continue to be subject to 20% UK income tax which you will have to reclaim directly from HMRC if affected.*

Written by Paul Richards, Head of Sales – FundsNetwork.



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It is entered on the Financial Services Register (www.fca.org.uk/register) under reference 461598.
Registered Office: 3rd Floor, Bridgewater Place, Water Lane, Leeds, LS11 5BZ.
Telephone: 0113 302 1369. Registered in England and Wales: 05998270

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