



Money Matters

Mowatt Financial Planning

U3A presentation
17 August 2010



"In this world nothing can be said to be certain, except death and taxes."

Benjamin Franklin



"Inheritance tax is a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue."

Roy Jenkins



“Today, people who hold cash equivalents feel comfortable. They shouldn’t. They have opted for a terrible long term asset, one that pays virtually nothing and is certain to depreciate in value”

Warren Buffett

Agenda

About Me

What is Financial Planning?

Savings Strategies

Investment Strategies

Tax efficiency

Questions?

About Me

Will Mowatt

- Qualified as an actuary in 1990 with Scottish Widows
- Director of Marketing at Norwich Union 2002-2008
- Established Mowatt Financial Planning Ltd October 2009
- Diploma in Financial Planning

MFP

- Directly regulated by the Financial Services Authority
- Fee based

Unbiased advice....

Fees

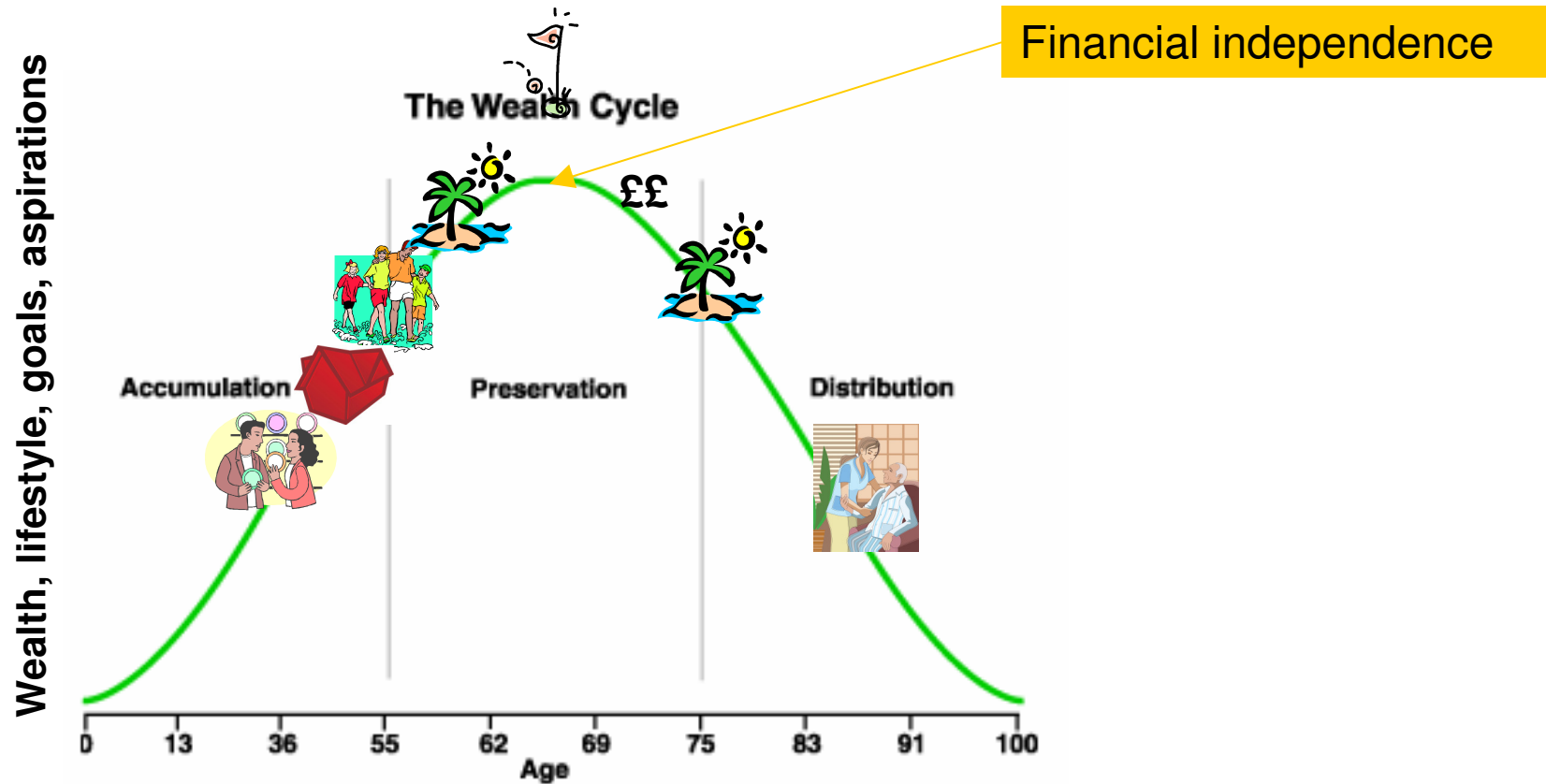
<p>Pros</p> <p>You pay for what you get</p> <p>Advice is unbiased</p>	<p>Cons</p> <p>No “free” advice</p> <p>May appear expensive</p>
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Commission

<p>Pros</p> <p>“Free” advice</p>	<p>Cons</p> <p>Cost is often hidden</p> <p>Can influence advice</p> <p>Cost can be disproportionate</p>
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From 2013 commission will not be possible for investment products

What is Financial Planning?



By bringing together your goals; timescales and costs you can work out how to get where you want to be in life by planning your finances accordingly

Overall Strategy

How much do you need?

When do you need it?

Income or capital?

Savings or investment?

- then consider tax efficiency

Savings Strategies – next 5 years

Shopping around for the best rate

- Daily or weekend papers
- Online

www.moneyfacts.co.uk

www.moneysupermarket.co.uk

Savings Strategies – next 5 years



- Emergency fund (e.g. 3-6 months outgoings)
- Next 12 months expenditure



- Expenditure in year 2
- Any goals in year 2



- Expenditure in year 3
- Any goals in year 3



- Expenditure in years 4 and 5
- Any goals in years 4 and 5

Savings Strategies


- non-ISA



- Better rates available for online accounts
- It pays to shop around
- Notice accounts are another option for short term cash (e.g. Manchester BS 2.81% 35 day)

		AER	Notice/Term	Minimum Investment	Account Operations	
<input checked="" type="checkbox"/> Compare Products		SORT	SORT	SORT		
<input type="checkbox"/>	West Bromwich BS	2.30%	Instant	£1000	Online ✗ Branch ✓ Postal ✗ Phone ✗	Details...
<input type="checkbox"/>	West Bromwich BS	2.30%	None	£1000	Online ✗ Branch ✗ Postal ✓ Phone ✓	Details...
<input type="checkbox"/>	Stroud & Swindon BS	2.25%	None	£1000	Online ✗ Branch ✗ Postal ✓ Phone ✗	Details...
<input type="checkbox"/>	State Bank of India	2.00%	Instant	£500	Online ✓ Branch ✓ Postal ✓ Phone ✗	Details...
<input type="checkbox"/>	Loughborough BS	2.00%	None	£25000	Online ✗ Branch ✗ Postal ✓ Phone ✗	Details...

Online accounts

<input type="checkbox"/>	Saffron BS	2.65%	None	£100	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...
<input type="checkbox"/>		2.60%	None	£1	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details... <input type="button" value="Apply"/>
<input type="checkbox"/>	Barnsley BS	2.50%	None	£1	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...
<input type="checkbox"/>	Intelligent Finance	2.49%	None	£1	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...

Savings Strategies

- Cash ISA



Who has a Cash ISA?

Who knows the rate of interest being paid?

How much is it?

Savings Strategies

- Cash ISA



•Not all accept ISA transfers

	AER	Notice/Term	Minimum Investment	Account Operations	
<input checked="" type="checkbox"/> Compare Products	SORT	SORT	SORT		
<input type="checkbox"/> Newcastle BS	2.75%	120 Day	£500	Online <input checked="" type="checkbox"/> Branch <input checked="" type="checkbox"/> Postal <input checked="" type="checkbox"/> Phone <input checked="" type="checkbox"/>	Details...
<input type="checkbox"/> Cheltenham & Gloucester	2.70%	Instant	£1	Online <input checked="" type="checkbox"/> Branch <input checked="" type="checkbox"/> Postal <input checked="" type="checkbox"/> Phone <input checked="" type="checkbox"/>	Details...
<input type="checkbox"/> Birmingham Midshires	2.70%	None	£500	Online <input checked="" type="checkbox"/> Branch <input checked="" type="checkbox"/> Postal <input checked="" type="checkbox"/> Phone <input checked="" type="checkbox"/>	Details...
<input type="checkbox"/> AA	2.70%	None	£500	Online <input checked="" type="checkbox"/> Branch <input checked="" type="checkbox"/> Postal <input checked="" type="checkbox"/> Phone <input checked="" type="checkbox"/>	Details...
<input type="checkbox"/> Marks & Spencer Money	2.65%	None	£100	Online <input checked="" type="checkbox"/> Branch <input checked="" type="checkbox"/> Postal <input checked="" type="checkbox"/> Phone <input checked="" type="checkbox"/>	Details...

Consistent ISAs

<input type="checkbox"/>	Earl Shilton BS	90 Day Cash ISA	2.45%	£10	90 Day	Details...
<input type="checkbox"/>	Monmouthshire BS	Cash ISA 2	2.50%	£10	30 Day	Details...
<input type="checkbox"/>	Harpenden BS	Simply ISA	2.25%	£1	Instant	Details...
<input type="checkbox"/>	Principality BS	e-ISA	1.80%	£1	None	Details...
<input type="checkbox"/>	Newbury BS	Notice Cash ISA	1.50%	£50	60 Day	Details...

Savings Strategies

- non-ISA



- Fixed rate for up to 3 years
- Index-linked savings certificates for 3 years and longer (not currently available)

		AER	Notice/Term	Minimum Investment	Account Operations		
	<input checked="" type="checkbox"/> Compare Products	SORT	SORT	SORT			
1 year	<input type="checkbox"/>	ICICI Bank UK 	3.10%	1 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details... <input type="button" value="Apply"/>
	<input type="checkbox"/>	Aldermore	3.01%	1 Year Bond	£1000	Online ✓ Branch ✗ Postal ✓ Phone ✓	Details...
	<input type="checkbox"/>	Northern Rock 	3.00%	01.09.11	£1	Online ✗ Branch ✗ Postal ✓ Phone ✗	Details... <input type="button" value="Apply"/>
2 year	<input type="checkbox"/>	Coventry BS 	3.70%	31.08.12	£1	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details... <input type="button" value="Apply"/>
	<input type="checkbox"/>	Aldermore	3.70%	2 Year Bond	£1000	Online ✓ Branch ✗ Postal ✓ Phone ✓	Details...
	<input type="checkbox"/>	ICICI Bank UK 	3.70%	2 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details... <input type="button" value="Apply"/>
3 year	<input type="checkbox"/>	ICICI Bank UK 	4.15%	3 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details... <input type="button" value="Apply"/>
	<input type="checkbox"/>	Aldermore	4.12%	3 Year Bond	£1000	Online ✓ Branch ✗ Postal ✓ Phone ✓	Details...
	<input type="checkbox"/>	AA	4.10%	3 Year Bond	£1	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...

Savings Strategies

- ISA



- Less choice of fixed rates
- Lower than non-ISA

		AER	Notice/Term	Minimum Investment	Account Operations	
<input checked="" type="checkbox"/> Compare Products		SORT	SORT	SORT		
1 year	<input type="checkbox"/> Aldermore	3.00%	1 Year Bond	£1000	Online ✓ Branch ✗ Postal ✓ Phone ✓	Details...
	<input type="checkbox"/> Northern Rock	2.80%	15.08.11	£500	Online ✗ Branch ✓ Postal ✓ Phone ✗	Details... <input type="button" value="Apply"/>
	<input type="checkbox"/> Principality BS	2.80%	1 Year Bond	£1000	Online ✗ Branch ✓ Postal ✓ Phone ✗	Details...
	<input type="checkbox"/> Mansfield BS	2.75%	1 Year Bond	£500	Online ✗ Branch ✓ Postal ✓ Phone ✗	Details...

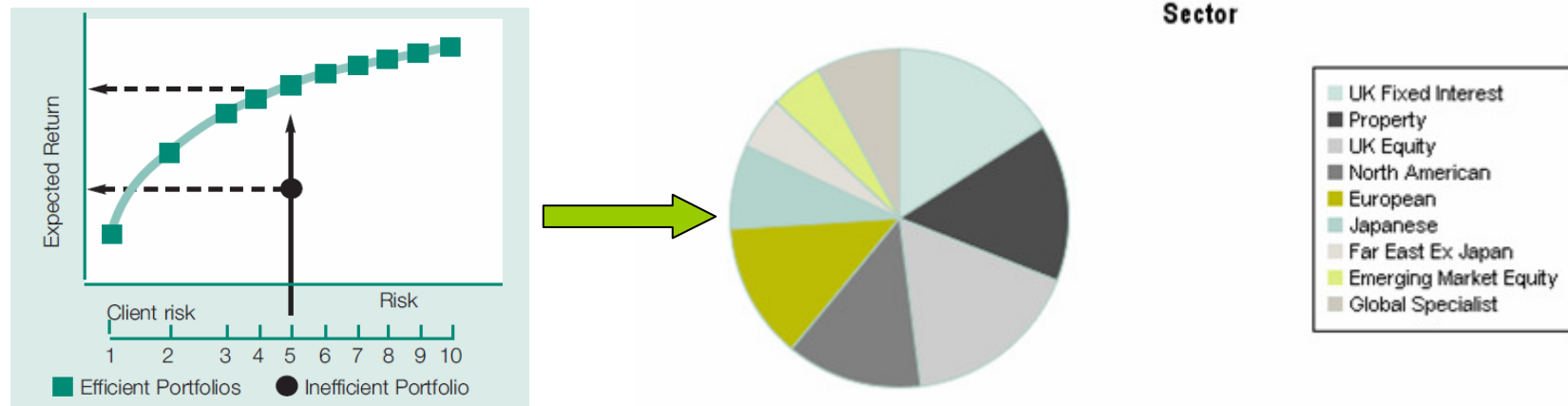
Savings Strategies – next 5 years

Key messages

- Shop around and keep shopping around
- Fixing for longer periods (more than 3 years) gives exposure to inflation risk
- Remember £50,000 protection limit
- Specific options for regular income needs

Investment Strategies – 5 years and beyond

Risk appetite drives your asset allocation



As a guide!

- Risk level 1 = find a good bank
- Risk level 10 = Thirsk races

Income Tax

0% Personal Allowance

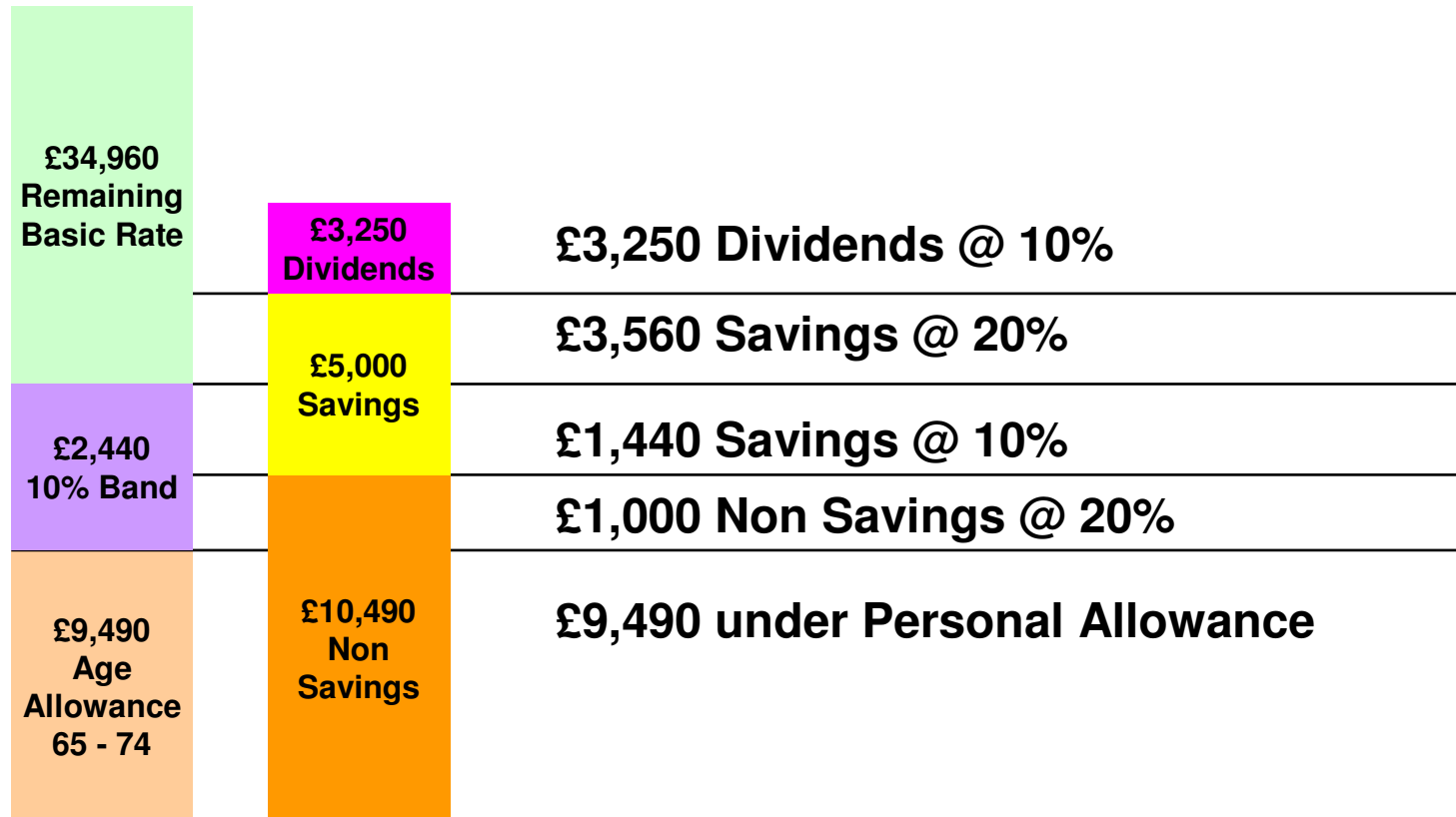
10% Savings Rate

20% Basic Rate

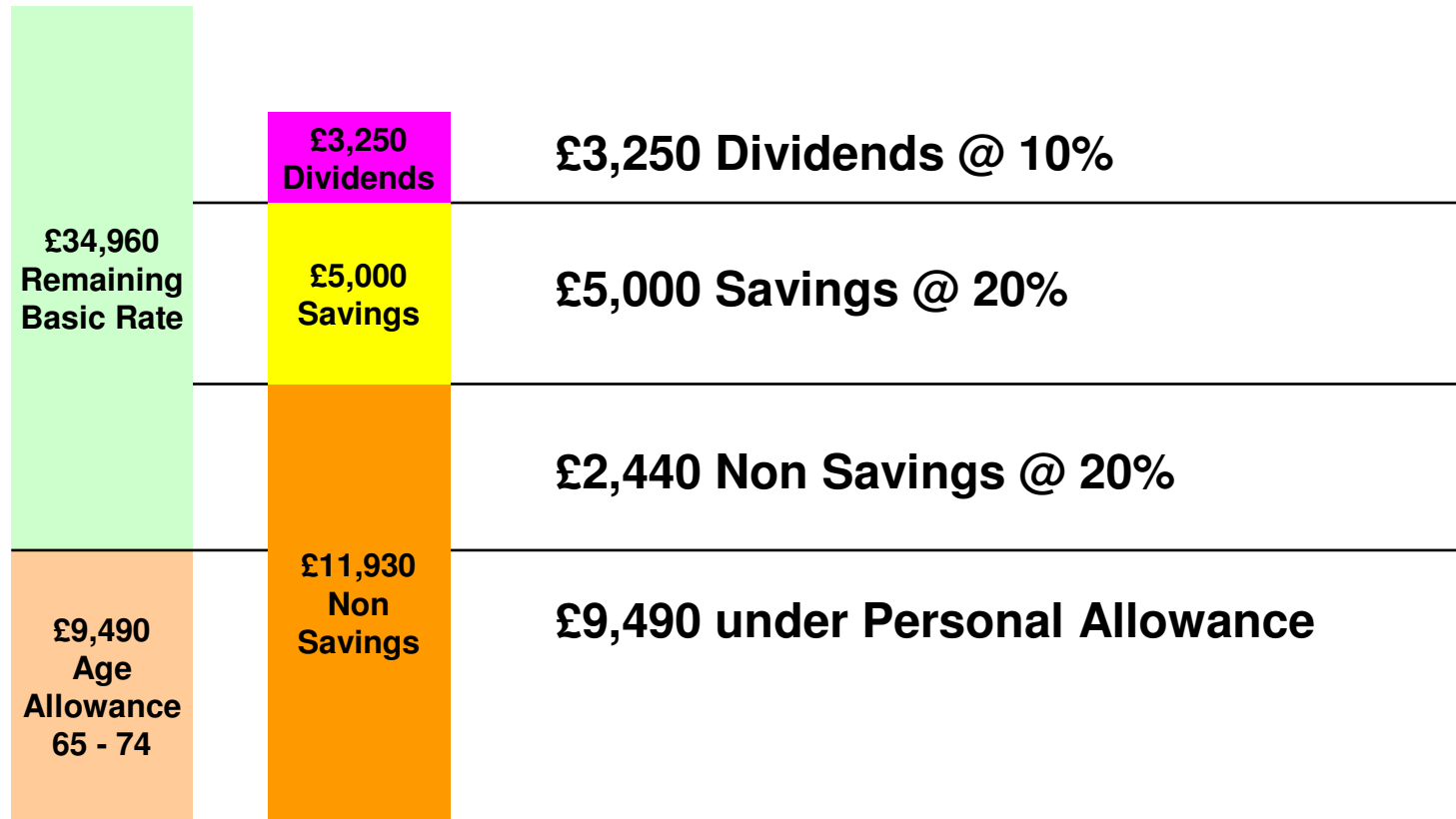
40% Higher Rate

50% Higher Rate

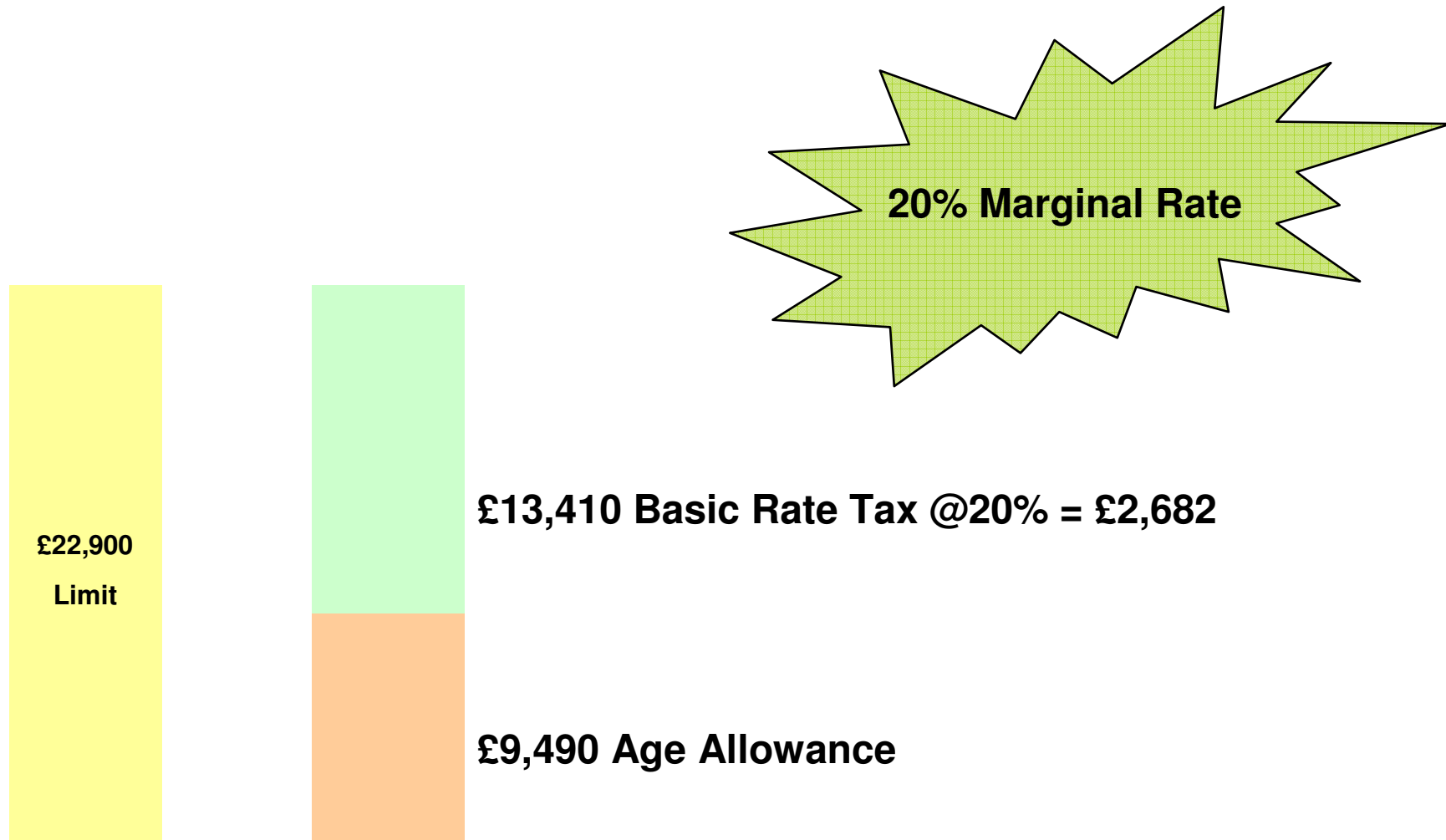
£18,740 Income and the 10% Band - 65 -74 Years of Age



£20,180 Income and the 10% Band - 65 -74 Years of Age



65 – 74 Age Allowance



65 – 74 Age Allowance Trap

- £6,030 more income



£6,030

£22,900



£22,455 Basic Rate Tax @20% = £4,491

£6,475 Age Allowance

Tax efficiency - Income Tax

Key messages

- Use your ISA allowance
- Transfer assets between couples to use both personal allowances and to manage marginal rate
- Consider assets which produce growth rather than income
- Consider Investment Bonds

Capital Gains Tax

- Annual Allowance of £10,100
- Capital gains above this taxed at 18% or 28% depending on marginal rate
- Transfer between spouses does not generate a capital gain or loss
- Not triggered on death (assumed to be passed on at market value at death)
- Some assets are exempt:
 - Main residence
 - National Savings Certificates and Premium Bonds
 - Government gilts and corporate bonds
 - Others...
- Some relief is available:
 - Entrepreneur's relief
 - Holdover relief (e.g. gifts)
 - Reinvestment relief (into Enterprise Investment Schemes)

Tax Efficiency - Capital Gains Tax

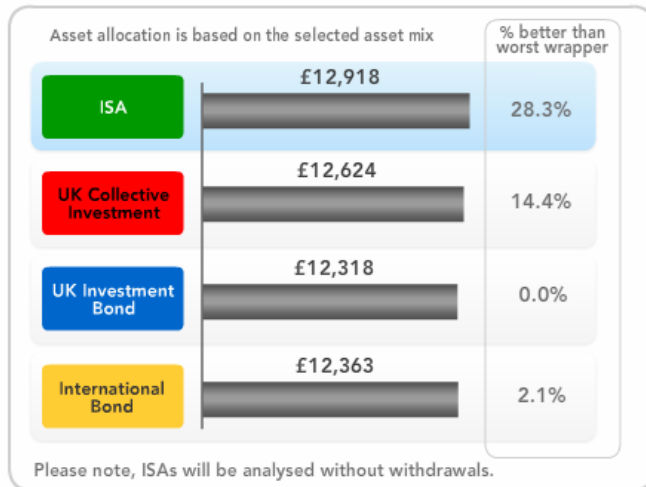
Key messages

- Manage gains (and losses) to avoid CGT
- Share gains between spouses

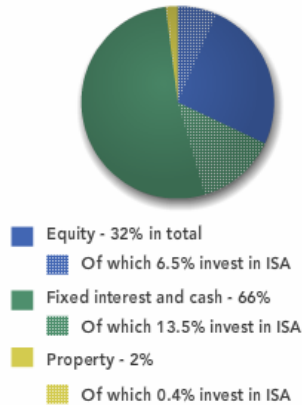
Overall Tax Efficiency

Final ISA Analysis

ISA investment amount £ 10,200



Selected asset mix for outside ISA analysis



Broad order is

- ISA
- Collective Investment
- Investment Bond

but does depend on individual circumstances (tax and assets)

	Higher-rate taxpayer	Basic-rate taxpayer	Non-UK taxpayer
UK equity growth	UK collective investment		Offshore bond
UK equity income	UK collective investment		Offshore bond
UK fixed interest	Onshore bond	Offshore bond	Offshore bond
UK property fund	Onshore bond	UK collective investment	Offshore bond

■ UK collective investment
 ■ Onshore bond
 ■ Offshore bond

Inheritance Tax

- Nil rate band is £325,000
- Any part of this which is unused on death can be transferred to the surviving spouse
- Exemptions:
 - Transfers between spouses and civil partners
 - annual exemption of £3,000
 - Gifts of up to £250 to any person
 - Normal expenditure (conditions apply)
- Potentially exempt transfers
 - Lifetime transfers
 - Fully exempt if the donor survives 7 years
- Chargeable Lifetime Transfers
 - Usually a lifetime gift to a trust

Tax Efficiency - Inheritance Tax

Various options to reduce IHT liability

- Give money/assets away
- Trust arrangements
- Whole life insurance

Questions?