



MJBrief

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Pensions rollercoaster turns again!

Remember 'A-day'? The pension simplification changes that came into force included several positive developments that were of great benefit to many people.

Compelled to buy an annuity?

Firstly, the birth of ASP (Alternatively Secured Pensions) meant that for the first time you could keep your pension fund invested beyond age 75. The main advantages of not being forced to buy an annuity are a flexible income and the death benefit, as the value of the fund can be passed to other pension scheme members (your children). Despite this only being a small part of the relevant market and only being introduced in April 2006 the pre-budget statement has announced changes that may signal the end of ASP as a viable option. The statement announced a new 'unauthorised payment charge' of up to 70% that will be levied on ASP funds transferred on the holder's death. It also stated that the Inheritance Tax charge on the remaining funds would remain in place. This means that up to 82% of the fund could be lost on death.

The income flexibility has been changed as well. Instead of the existing limits of an income between 0 and 70% of the available annuity, income will have to be taken between 65% and 90% of the available annuity.

In the light of this it may be more IHT efficient to purchase an annuity and make gifts 'as part of normal expenditure' to your beneficiaries. But you must live long enough to draw at least 18% of the fund (net of tax) for this to pay off.

Tax Relief - or not?

Another positive result of 'A day' was the ability to take out a life Term Assurance under pension rules and benefit from Tax relief at your highest rate on the premium. Well, 8 months after introducing this, the Government appears to have stopped it dead. The pre-budget statement has caused all providers to withdraw their Pension Term products while consultation takes place prior to the next budget.

Naturally we are disappointed by these announcements and intend to keep a close eye on developments between now and the budget, and then advise you accordingly.

Call us now for advice on **01243 - 771777**



Property – The devil’s in the detail

Property funds have been the fund of choice over the past few years offering seemingly great returns for little risk. In our previous MJBrief we highlighted the benefits of these funds. However, no two property funds are the same and subtle differences can affect the future performance of a fund. The levels of cash in the fund, what type of properties the fund holds and whether there are any property shares in the fund all contribute to the likelihood of continued performance. Some property funds currently hold well over 20% cash as investors’ money pours in with a lack of quality properties to spend it on. So the fund manager has three choices:

1. To hold onto the cash and reduce the immediate performance
2. buy lower quality properties which may be overpriced or
3. buy property shares that increase the risk level of the fund.

Whilst we are still keen for our investors to have an element of property in their investment in order to balance the more volatile equity holdings, choosing the right fund is becoming more crucial.

There is a growing trend among property investors to diversify their UK property exposure into overseas markets. Why is this when the returns on these funds have been so strong? There are two main reasons for this;

1. Relative property valuations
2. Profit taking from UK based funds

The demand for property funds over the last few years has contributed to the incredible returns seen by these funds. There is no sign of this demand diminishing as investors continue to chase the double digit returns these funds have offered over the three years. ***Most commentators do expect returns to fall to the more realistic single digit level during 2007.***

If you would like more information on your property fund or wanted to invest in a property please call and we would be happy to run through the choices with you.

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Cash isn't always the low risk alternative

Although it's necessary to have some cash readily available at all times to meet emergencies, it is important to consider the effect of inflation on money which will be needed by the retired investor throughout retirement. Consider the example of the retired couple with £100,000 on deposit from which they wish to draw an income after income tax of £3,000 to meet their expenditure needs over and above their pension and let us assume that they will pay 20% income tax on a deposit earning 4% per annum.

Year	Value (£)	Interest (£)	Tax (£)	Net Income (£)	Required Income (£)
1	100,000	4,000	800	3,200	3,000

At the end of the first year they have made £3,200 after tax, £3,000 of which has been spent leaving £100,200 for investment the following year. On first sight this looks appealing, however, if we assume inflation of 3% such that they require an income of £3,090 to maintain their standard of living the following year and £3,278 in year four.

Year	Value (£)	Interest (£)	Tax (£)	Net Income (£)	Required Income (£)
2	100,200	4,008	801	3,206	3,090
4	100,343	4,013	802	3,211	3,278
10	98,305	3,932	7,86	3,145	3,914
20	83,180	3,327	665	2,661	5,260
30	44,737	1,789	357	1,431	7,069

You will see that the couple's expenditure needs are growing significantly faster than the income generated such that by year 4 the required income is greater than the net income earned. Obviously it gets even worse as the years go by.

The risks associated with cash deposits can be alleviated through the purchase of other investment assets such as corporate bonds or index linked securities or even interest producing equities. Talk to us about investing for retirement.

Call us now for advice on **01243 - 771777** or visit us at 1a The Boardwalk, Northgate, Chichester PO19 1AR

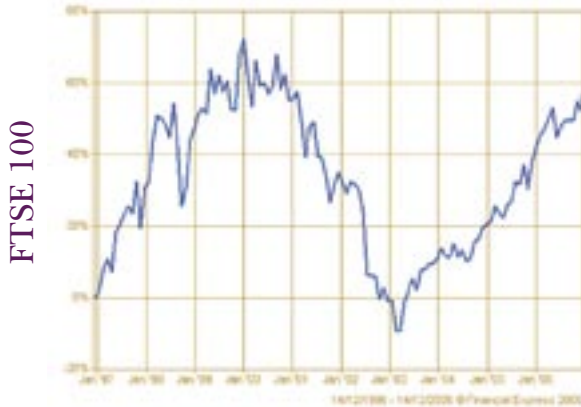
MJB Investing for Income Seminar

Interested in investing for income? Come to our seminar at the Chichester Park Hotel (formerly the Ramada Jarvis) on 3rd April 2007 at 10am. We'll have three expert speakers, including Andrew Blair; Head of Skandia Investments. Call or click to attend.

www.mjbpartnership.co.uk

Shedding Light on With Profits

There has been much condemnation of With Profits in recent years and many investors are left wondering why their returns have fallen to, at times, 0%. It's a complicated issue, but let's try and explain. Until the year 2000 With Profits funds were seen as offering the Holy Grail for investors; good returns for little risk. This was achieved through the smoothing out of the returns the assets within the fund were offering. So what went wrong?



Since its peak at the Millennium the stock market went through an unprecedented fall for more than three years. Many With Profit fund managers sold some of their equity holdings during this time which only served to flood the market and further reduce the demand. At the same time the industry's regulator, the FSA, brought in tougher measures on these types of fund called Capital Adequacy in light of the problems at Equitable Life. This meant that where there were guarantees within the With Profits fund the fund manager had to purchase more secure assets (Fixed interest) to reduce the risk at the cost of selling their equities as the market fell. From an investment point of view, the combined effect of the stock market falling and the With Profit managers having to sell was critical. Selling Equities as they neared their lowest value and buying Fixed interest stock as they were about to under-perform.

So what should you do with your With Profits investment now? These funds may still be suitable for some investors however, since they have changed so much in recent years you will need to review whether other alternatives may be more appropriate.

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MJB Online!

The MJB website is up and running - do take a look, you can get quotes, receive MJBrief online, and everyone who contacts us via the website between now and April 1st will be entered into our free Champagne draw! Congratulations to Adrian Poole, the winner of our last competition.

www.mjbpartnership.co.uk

