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INVESTMENT BULLETIN

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INVESTMENT FOCUS

Chancellor of the Exchequer George Osborne's shakeup of the individual savings account (ISA) regime may have been largely unexpected but it received a broadly warm welcome nevertheless. The changes had three main strands– a significant extension to the annual allowance, a simplification of the overall structure and the introduction of new allowable asset classes within ISA's.

Prior to the 2014 Budget, there has been rumours the Chancellor would seek to impose a lifetime cap on ISA's, as has been done with pensions. As it was, he went in the opposite direction, hiking the annual allowance to £15,000 from its current level of £11,520. The limits for Junior ISA's were also increased from £3,720 to £4,000.

Arguably the Chancellor's most important change, however, was to make the structure of ISA's simpler. He has created a 'New ISA' which gets rid of the separate allowances for cash ISA's and stock and shares ISA;s, and allows transfers from shocks and shares ISA's to cash ISA's. Transfers had previously only been allowed in the other direction.

The creation of this single allowance means conservative, cash based savers may shelter more within an ISA even if this may not currently be an attractive option for many. However, the move also allows more flexibility for all types of ISA investors, enabling them to change their asset allocation more easily over time.

As an example, more cautious investors whose ISA holdings are substantially in stocks and shares could now move to cash should rates improve or they feel the market looks set to weaken. Equally, the greater simplicity is also welcome. Investment is complex for novice investors and anything that makes it easier to understand is likely to improve saving rates.

The Chancellors final move was to broaden the range of allowable investments within an ISA to include peer to peer lending schemes, which aim to match individual lenders with borrowers who may be unable find financing elsewhere. The extension to the rules comes hot on the heels of the recent decision to allow Aim investments to be included within ISA's.

There is now a broad range of potential ISA investments, including standard open-ended funds and investment trusts, exchange traded funds, individual shares, Aim stocks and commercial property funds and our view is that the ISA now has real clout as a savings option.

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Pension Focus

Chancellor of the Exchequer George Osborne set about rewarding the retirement landscape in the 2014 Budget, introducing measures to allow retirees to spend their pension pot as they choose, rather than having to buy an annuity. The measures mean retirees will have much greater flexibility and less prohibitive tax penalties if they look to access the rest of their pension pot after taking their tax-free lump sum.

With effect from 27 March 2014, they will be taxed at their marginal income tax rate although, for now, the portion that can be taken as a tax-free lump sum remains at 25%. Prior to this Budget, however, those with less than £2,000 in a pension pot could take it as cash. This year, this limit will rise to £10,000 for an individual pot and £30,000 for people who have saved across a number of schemes. From 2015, the limits could disappear altogether.

The Chancellor also announced the introduction of a 'pensioner bond' Issued by National Savings & Investments fro January 2015 for those aged over 65, this new bond will have an investment limit of £10,000 per individual. Rates have been set but initial estimates suggests a three-year bond could pay up to 4%. This compares with a rate of some 2.7% from the best fixed rate bond on the market.

In a less headline-grabbing move, the Chancellor also announced plans to allow people over 75 and over to continue to claim tax relief on pension contributions.

Long term care plans

The rising cost of long-term care has become an overlooked hazard for our ageing population.

However, for those looking to plan ahead, there are various ways to help. 'Immediate needs' annuities can help bridge the gap between income and care costs. Pre-funded care plans are no longer available to purchase, although you might have a pre-existing policy that allowed you to insure future care requirements before they arose.

You could also consider using your pension pot to buy an enhanced annuity if you have a lifestyle that could affect your long-term health. If in doubt, do speak to out advisors.

The benefit of regular savings

In the complex world of investment, timing appears to be crucial. However, without the benefit of hindsight, it is impossible to second-guess the market. However, there is a way around this. By saving regularly, investors can benefit from what is known as 'pound cost averaging'. This mitigates the risk of buying your entire investment at a single price – instead, smaller sums are regularly invested at a variety of different prices, reducing the risk of investing at the wrong time. Most investment products offer regular savings as an option, including investment funds, Individual Savings Accounts (ISA's), life assurance and pension plans.

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