clayden associates
independent financial advisers

INVESTMENT BULLETIN

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What now for the eurozone?

The Syriza party's success in Greece's general election on 25 January has prompted speculation the left-leaning anti-austerity movement's calls to renegotiate the terms of the country's bailout could lead to the ultimate destruction of the eurozone. Does Syriza's victory threaten to undo all the good work of European Central Bank president Mario Draghi in finally delivering quantitative easing a few days earlier? At first glance, Syriza does not appear to have a particularly strong negotiating position. For Greece, at least in the short term, the economic consequences of a eurozone exit look dire – an instant and precipitous devaluation of the currency, an ending of access to Germany's deep pockets, an almost inevitable default on its government debt and a resulting inability to access capital markets for the foreseeable future. Equally, the other members of the eurozone do not appear unduly troubled by the prospect of a Greek exit – for example, German chancellor Angela Merkel's chief adviser is on the record as saying: "Greece is no longer of systemic importance to the euro." Clearly there would be consequences but the outcome for Greece versus the rest of the eurozone appears unbalanced. However, Greece and Germany's positions may be less polarised than they first appear. There is a growing recognition across Europe austerity may not, by itself, be the answer. It is stifling growth and therefore the debt burden is increasing. Historically, when other countries, such as Canada, have attempted austerity, it has worked because the rest of the world has been growing. The eurozone lacks that tailwind. This means, one way or another, increasing spending. This could take the form of infrastructure investment rather than social spending but, nevertheless, it should ease the burden of austerity for countries such as Greece and placate the Greek people. Should this happen, Syriza could return from the negotiating table, honour intact. Quantitative easing should also help. If it succeeds in creating more structural growth across the eurozone, it should ease the pressures on governments throughout Europe. Equally, a lower euro should provide an economic boost. In this context, the idea of a domino effect of rebellion against the eurozone seems far-fetched. The most likely outcome looks set to be some marginal concessions to Greece, more infrastructure spending to boost growth and an easing of austerity. In effect, eurozone policymakers may only end up conceding to Greece what had been starting to seem necessary anyway.

Contact Details

Clayden Associates

Unit 9, The Business Centre

33 Chapel Street

Buckfastleigh

Devon TQ11 0AB

tel: 01364 643003

A new dawn for pensions

The 2014 Autumn Statement confirmed the dawning of a new era in pensions. A number of the changes had already been well-flagged – for example, the removal of the cap on drawdown income from April 2015, which will allow all individuals to take as much or as little as desired from their pension pot, though the income will still be subject to tax. However, the Autumn Statement also brought in new rules whereby the new lump-sum withdrawal option – 25% tax-free and 75% subject to income tax – will be added to the existing choices of annuitisation, drawdown and tax-free cash when individuals take their benefits. New rules were also introduced to prevent individuals making contributions that attract tax relief and then immediately making lump-sum withdrawals, a proportion of which will be tax-free. People who access a pension under the new flexible rules will only receive tax relief on contributions of up to £10,000 gross each year afterwards. There are limited exceptions. Another significant change has been the treatment of residual pension pots on death as the Autumn Statement confirmed the abolition of the 55% tax charge imposed on pension pots in certain circumstances. A further positive note was that spouses who continue to receive annuity income after the death of their wife or husband will enjoy the same tax breaks. Still, with every silver lining must apparently come a cloud and the government also announced the minimum pension age would increase from 55 to 57 from April 2028 onwards.

Keep track of your ISA progress

Many people are quick to take advantage of the tax breaks offered by Individual Savings Accounts (ISAs). However, it is a mistake to think you can just squirrel away your money and then forget about it. About half of all investors in stocks & shares ISAs have little or no idea how their portfolio is performing, according to online investment service Rplan. If you want to ensure your ISA is still working for you, it is important to keep abreast of performance – either online or through the financial press – as well as the level of fees you are paying.

New ISA benefit for spouses

The 2014 Autumn Statement provided another opportunity for Chancellor of the Exchequer George Osborne to make Individual Savings Accounts (ISAs) more attractive to investors and he duly obliged. Over the past five years, a range of mostly welcome changes have included broadening the scope of allowable investments – to incorporate retail bonds, peer-to-peer lending and Alternative Investment Market shares – and a significant increase in the annual allowance. Now partners will be able to inherit a deceased spouse's ISA account or accounts. Previously, ISAs lost all their tax benefits on the death of the holder and formed part of their estate for inheritance tax purposes. From now on, for deaths on or after 3 December 2014, the surviving spouse will be deemed to have an additional ISA allowance, equal to the amount the deceased spouse had in their ISAs, which can be used from 6 April 2015. The new rules mean spouses can preserve any tax-free income stream their partner had received. The new structure is complicated – technically, the ISA wrapper and its tax benefits still disappear on death and the investments are still theoretically part of the estate for inheritance tax purposes. This means that if the ISA is assigned to anyone but the spouse, it will be taxed as before. It is only because there is no tax on inter-spouse transfers that it escapes under the new rules and it is only through the additional one-off allowance to the surviving spouse that – from 6 April 2015 – the Isa retains its tax-sheltering benefits. The Treasury commented: "150,000 married ISA savers pass away each year and their ISA tax advantages die with them, even if they were saving as a couple. From 3 December 2014, if an ISA saver in a marriage or civil partnership dies, their spouse or civil partner will inherit their ISA tax advantages. From 6 April 2015, surviving spouses will be able to invest as much into their own ISA as their spouse used to have, on top of their usual allowance, and so will be better able to secure their financial future and enjoy the tax advantages they previously shared." The ISA limit is also set to increase to £15,240 from 6 April 2015.After the significant rise announced last year, this year's rise is linked to the September inflation figure, as will be the case in future.

Make the most of your ISA allowance

People often leave any thought of Individual Savings Accounts (ISAs) until the last minute, investing close to the 5 April end-of-tax-year deadline. Although this date offers a useful marker, you can enjoy the tax advantages for longer by investing earlier. It is never too early to start considering the best home for this year's ISA allowance and how to make the most of the associated tax breaks - either by investing a single lump sum or a series of smaller amounts via regular monthly savings. Your ISA allowance for 2014/15 is £15,000.

Allocating your wealth

For many people, the prospect of retirement seems almost unreal: something that might happen in the distant future. Nevertheless, it is important to plan ahead, and time is your most valuable weapon. Building sufficient assets to fund your retirement will take a long time, and it's worth getting into the savings habit as early as possible. Even putting a small amount away on a regular basis can make a difference over the long term. Investors receive income tax relief on their contributions to occupational and personal pension schemes, subject to certain limits. You can contribute up to £3,600 or 100% of your net relevant earnings (whichever is the greater), subject to an overall maximum of £40,000 in the tax year 2014/15 . Your contributions to company pension schemes are deducted before income tax is calculated. For contributions to personal pension schemes, your pension provider will reclaim any tax that you paid before you made your contributions. If you have worked for more than one employer, always check your previous company schemes and work out your entitlements. It is also worth considering individual savings accounts (ISAs) which are tax-efficient 'wrappers': all income and capital gains generated by the investments held within are paid out free of further tax. The amount of money you can invest in an ISA is subject to an annual limit (£15,000 during the tax year 2014/15), and this can be invested in stocks and shares or cash.

Reaching your investment goals

Investors are generally either income-seekers or growth-seekers but, whatever your aims, it is important to set them out and understand your attitude to risk as these decisions will form the basis of the investments you make. There is a relationship between the amount of risk taken and the amount of potential return but, to ride out short-term ups and downs, you need to take a long-term view. So the decisions you make about a pension – which might have a 35-year lifespan – will be different to those of, say, an inheritance which you want to spend in less than five years. Put the latter in the wrong place and you risk losing a lot of what you have been given.

Long-term care options

A crisis has developed in the funding of long-term care for the elderly. As the proportion of elderly Britons continues to rise, demand for care is exceeding supply, and payment for long-term care has become an increasingly pressing problem. You have various options to consider when planning your future long-term care, but it's important to speak to a financial adviser who can help you to find the strategy that is best for you. Looking ahead, one in three people will require care, according to the Association of British Insurers (ABI), so there's a good chance that it might include you.