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review@holden-partners.co.uk

Welcome to the latest edition of H&P Review. It's been a turbulent year for investors, with stock markets being affected by the Greek debt crisis and more recently mounting concerns over the Chinese economy.

Since the Greek and Eurozone leaders agreed the latest bail out, we have seen the Greek PM re-elected and now we will wait to see how robust the deal actually proves to be. Sceptics argue that given the size of the Greek economy in relation to its debt, the latest solution can only be a temporary one and that it is only a matter of time before the old problems re-emerge. Those with a more positive opinion view the new deal as an opportunity for both Greece and the Eurozone to emerge as stronger, more unified entities. More recently, however, Europe's stuttering response to the emerging refugee crisis has once again raised questions as to whether the EU can ever function effectively on either a political or an economic basis.

Over the last few months, attention has begun to focus on the Chinese stock market. In recent times, growth in the Chinese stock market has largely been fuelled by small investors, who have moved out of property and borrowed heavily to purchase shares in Chinese companies. Small retail investors account for 80% of Chinese shareholders; an unusually high figure compared with western stock markets where the majority of shares are owned by institutions. Fears that the Chinese stock market is over valued following declining economic growth have spread suddenly amongst these retail investors, resulting in widespread panic selling.

Those abroad investing for the long term however argue that although the Chinese economy is currently going through a rough patch (in part brought about by misguided state intervention), ultimately it may prove to be a healthy blip, which should result in more sustainable growth in the future.

Interestingly, one sector that has performed well is the ethical, sustainable and thematic investment market. Recently published research suggests that ethical investments can outperform average stock market returns. Earlier this year, Moneyfacts, found that ethical funds gained an average 24% in value in the 12 months surveyed. This compares to 18% growth averaged across the non-ethical funds. Over the last three years, ethical funds grew by 36%, against 31% for non-ethicals. Over a ten year period, ethical funds do however trail their conventional counterparts. (Source: Unquoted, 22 June 2015).

More recently, according to FE Trust Net, ethical funds in the IA UK All Companies and UK Equity Income sectors have tended to hold up better than the index and their average conventional peer in the recent correction. (Source: FE Trust Net, 1 September 2015).

Ethical funds have clearly benefitted from their lack of exposure to 'unethical sectors' such as mining, oil and gas and tobacco, which have been amongst some of the poorer performing areas of the market over the last twelve months, however, we would argue that over the last few years there has also been a significant change in mind-set, and environmental, social and thematic (EST) considerations have truly entered into the mainstream investment consciousness.

At Holden & Partners, we believe that environmental, social and thematic (EST) factors are becoming more and more relevant to all investment related decisions. The financial crisis, increasing environmental degradation, poverty, inequality, conflict, corruption and health concerns are just some of the key global challenges society is currently facing.

These are challenges that have become far too complex for the public sector to combat alone, and there is a growing demand that businesses, as primary drivers of globalisation, play a bigger

role in addressing these issues. Those that do not play a role, or those who contribute to the problems rather than the solutions, may find themselves vulnerable to sentiment moving against them, as consumers or purchasers go elsewhere (Source: Citywire 20/1/2015). We believe that for the investor seeking a return on capital over the long term, considerations about a business's sustainability are not niche factors, they are a fundamental part of the investment process.

In this latest issue of Holden & Partners Review, Amelia Sexton considers the merits of investing in Water, Jack Rawcliffe comments on investment opportunities in Europe whilst Mark Dodd, Andrew Johnson and Aran Kupelian each write on differing aspects of recent changes to pensions. Finally, Reece Biggadike compares the merits of investing in both pensions and ISAs.

New Faces at Holden & Partners

Holden and Partners continues to grow steadily. Since the last edition of H&P Review, we are pleased to announce that we have been joined by Hannah Turnbull, Jocelyn Maagbe and Rebecca Shasha all of whom will be working in an advisor support capacity. We wish them all the best of luck in their respective careers with Holden and Partners.

Steven Pyne
Partner

thirsty work

Many investors understand the importance of aligning their portfolios with global megatrends to achieve sustainable future growth and aid diversification – the investment case is categorical. Doing so effectively, however, is a more difficult task.

Investment in renewable power and energy efficiency has undergone somewhat of a renaissance in recent years, but another sector which has proved slightly less popular, although no less critical to sustainable development, is water. For all the confusion surrounding its status as an asset class – how it should be measured and valued, whether it may be classed a commodity, or even a basic human right – one thing is clear; the opportunities in the sector are numerous, diverse and exciting. Investing in water need not be thirsty work.

There is a common misconception that the planet's water resources remain plentiful and infinitely reusable, but this could not be further from the reality of a world in which supply is becoming increasingly scarce and constrained. Whilst it is true that water comprises over seventy per cent of the Earth's surface, 97 per cent of this is salt water, confined to the oceans. Of the remaining 3 per cent, 98 per cent is either frozen or deposited underground, making it effectively redundant and leaving less than one per cent of the global supply potable and accessible with current technologies.

Issues involving water have been listed in the top three global threats since 2013

Indeed, to understand the central investment thesis for water, look no further than the 2015 World Economic Forum in Davos, at which water crises were described as the most severe global risk facing the world in terms of impact. In fact, issues involving water have been listed in the top three global threats since 2013, and are perhaps exacerbated by the continuation of extreme weather events which are ranked number two in terms of likelihood in 2015. The crux of the issue is that the supply of this natural resource is under threat, whilst simultaneously the demand for it is set to grow exponentially. The phrase 'peak water', derived from a term used by the oil industry to imply that the limits of a finite resource are being reached, is featuring increasingly in the rhetoric of academics, governments, and even investors.

So how has the world come to face such an acute water shortage?

Aside from the fact that most of the Earth's water is not potable or reachable, large swathes of the globe are in a state of drought or have questionable access to a sustainable water supply. This is particularly pronounced in regions of the United States where a combination of unique ecological issues, alongside mismanagement of existing resources, culminates in periods of exceptional dryness, many of which are becoming more prevalent as climate change aggravates weather patterns.

The creation of burgeoning cities, agricultural plots, and leisure complexes across arid regions has generated a new, and insatiable, demand for water, and without sufficient precipitation to fill rivers or reservoirs, damaging depletions of this crucial natural resource arise as a result. California may be the eighth largest economy in the world, but it needs to dedicate the staggering sum of $40 billion to meet its water infrastructure needs over the next twenty years. Perhaps even more startling, is the fact that across Western Europe and Northern America, one in three people live in what the UN describes as a region experiencing 'water stress'.

This is not to mention the developing nations of the world in which population growth and urbanisation are increasing at a rate which far surpasses that of developed economies. Indeed, it is here that the demand for water is at its most unprecedented and the severest of shortages ensue. In some of India's biggest cities, such as Delhi and Mumbai, the combined population is set to increase to 60 million in 2025. With more people comes the need for more water distribution networks, sanitation systems and wastewater treatment facilities, especially given that current infrastructure improvements have not kept pace with the speed of urbanisation, and water pollution is rife as a result. When one takes these factors into consideration, it seems that the crisis in water supply is a global phenomenon, and one that is completely entrenched.

Nevertheless, with every crisis comes opportunity

Nevertheless, with every crisis comes opportunity. As sustainable investors it would be wrong to resign ourselves to the fact that catastrophe is inevitable. Instead, it is more beneficial to establish how to access opportunities in safeguarding water resources, through areas which are well-placed to profit from finding solutions in a water-constrained world.

Water efficiency is a sector at the forefront of this theme, as conserving supply is central to meeting the surging need for food and energy, as well as limiting water wastage. Due to its use as a vital input for a range of industrial activities, efficiency projects in the fields of construction and agriculture will be crucial, and it is in this area that the majority of investment institutions are focusing their exposure to the long-term water proposition. The contention is that agriculture, today's biggest consumer of water, will continue to account for an increasing level of supply as populations grow and the industry expands. Much of its existing use is already unsustainable, effectively reducing the supply just as the need is mounting.

Shale gas, although controversial, also provides renewed impetus for investment in water efficiency, as it, too, intensifies the pressure on resources and poses threats to water quality

Shale gas, although controversial, also provides renewed impetus for investment in water efficiency, as it, too, intensifies the pressure on resources and poses threats to

1. http://www.alliancetrustinvestments.com/sri-hub/posts/2015/February/integrating-water-investment-decisions
2. Global Risk Reports, World Economic Forum, 2015
3. http://www.forbes.com/sites/trangho/2015/04/04/irresistible-investment-opportunities-gushing-from-californias-epic-water-crisis
4. http://www.forbes.com/sites/joelkotkin/2013/04/08/the-worlds-fastest-growing-megacities

water quality. Extraction is highly dependent on a plentiful water supply but, to date, there has been little focus on the need for water accessibility, and safety has been somewhat lax; as recently as May 2015, traces of fracking chemical were found in drinking water in Pennsylvania, USA. Despite this, stricter regulatory oversight is pressurising the industry to improve the treatment of waste water and the volume that is recycled, as well as facilitating management of contaminated water, and disclosure over which chemicals are used. All of these improvements require investment, and those with the insight to look towards the water sector for opportunities are appropriately positioned to benefit.

Some commentators may argue that it is distasteful to generate investment returns through such an essential resource as water. However, it is likely that the technologies needed to recycle, purify, and deliver clean water to growing urban populations, may not ever be developed without the financial backing that is so greatly needed from private companies and investors.

It could take some time before the full effects of water scarcity become apparent, but possessing exposure to the sectors which are helping to prevent a global water crisis now can be a rewarding endeavour, and one which is rapidly gaining the attention of the investment industry.

Amelia Sexton
Investment Analyst

pension contributions get complicated

Up until 6 April 2015, pension contribution limits, known as the annual allowance, were relatively simple. In essence you could contribute up to £40,000 (gross) per annum either via an employer, individual or a combination of both. In addition, where you had unused annual allowance (AA) from the previous 3 tax years, you could carry forward the unused allowances to the current tax year.

Where it got slightly complicated, was determining the amount of contribution deemed payable in a tax year. Each pension scheme had a pension input period which usually lasted 12 months, but did not necessarily align with the tax year. It was possible to plan around pension input periods to use 2 annual allowances in one tax year.

With the introduction of the new 'pension freedom' and also the recent budget, we now have further changes.

Changes relates to pension input periods

In the budget, pension input periods (PIPs) are being simplified and from 6 April 2016 will be aligned with the tax year. In order to align the PIP, transitional rules have been introduced and potentially certain clients will have the ability to contribute up to £80,000 (gross) into a pension in the current tax year. The PIP rules work as follows:

- All open (pre-budget) PIPs will end on 8th July 2015 and count against the 2015/16 AA
- All new (post budget) 2015/16 PIPS will run from 9 July 2015 to 5 April 2016
- All PIPS will then be fixed and aligned with the tax years and cannot be amended in the future.

How this affects the AA

- Pre Budget IPPs and other 2015/16 PIPs that ended before 9 July 2015, will have an AA of £80,000
- Post Budget PIPs will have any unused part of the pre- budget £80K AA, up to a maximum of £40K

In addition, there will still be the opportunity to pay more than the AA by making use of carry forward from earlier years.

Annual Allowance Taper

In the summer budget, additional complexity was proposed where someone earning over £150,000, will have their AA reduced by £1 for every £2 they are over the £150,000. The reduction is capped so someone earning £210,000 will have an AA of £10,000.

The complication is in the income calculation as it isn't just earnings from employment or self –employment. It will be necessary to determine net income, which is total taxable income reduced by deductions listed in section 24 of the Income Tax Act 2007 (relief such as trading and share losses).

It will then be necessary to add back in reliefs claimed under net pay arrangements, such as personal pension contributions as well as employer pension contributions.

In addition anti avoidance legislation is being introduced to stop the manipulation of income to remain below the threshold such as salary sacrifice arrangements established post budget.

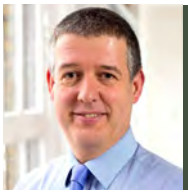
As the legislation needs to be passed in the Pensions Bill, we hope some of the complexity will be simplified.

Money Purchase Annual Allowance

Where an individual commences income payments under Flexible Access Drawdown (FAD), the Money Purchase Annual Allowance (MPAA) will be triggered and this means contributions that are made to a money purchase pension (such as Occupational Defined Contribution, IPPs or Personal Pensions) will have a new restricted annual allowance of £10,000 applied.

It will still be possible to accrue benefits under a defined benefit pension and utilise the current unrestricted AA (less any money purchase contributions).

As always, with the new and proposed changes to contribution limits, planning ahead is imperative to ensure you utilise the full allowances currently available.



Andrew Johnston
Financial Adviser
& Partner

state pension TOP UP

From October 2015, existing pensioners and those retiring before 6 April 2016, will have the option of making additional National Insurance Contributions (Class 3A) in order to increase their state pension by a maximum of £25 a week / £1,300 a year. The income is taxable, linked to inflation (CPI) and 50% can be inherited by a surviving spouse.

The scheme operates like an annuity in the sense that the individual pays a lump sum in exchange for a guaranteed income for life. The amount of the lump sum required will depend on the individual's age.

As an example, in order to receive the maximum £1,300 a year, the following lump sums would be required:

65 year old	**£22,250**
75 year old	**£16,850**

These figures equate to equivalent annuity rates of 5.84% for a 65 year old or 7.71% for a 75 year old, which are far in excess of the rates available from an insurance company. At current annuity rates, it would cost a 65 year old £37,420 to purchase this level of income and a 75 year old £25,550, so it is apparent that it will cost much less to secure an income via state pension top up compared to buying an annuity.

Who will benefit and who will not?

Whilst the aforementioned figures look attractive, especially in the current low interest rate environment, they will not represent value for everyone.

The major disadvantage is that it is an annuity style arrangement, which means that once the individual has paid the initial lump sum, they cannot get their capital back. Therefore, it will not be suitable for people who require ready access to capital.

People who will benefit the most are those who live long enough to receive their capital back in the form of additional income and due to the 50% spouse's benefit, those with a younger spouse could benefit further. As an example, a 65 year old would need to live to age 82 to see their money returned (not factoring in tax and inflation).

Based on current cohort mortality tables from the Office of National Statistics, a 65 year old can on average, expect to live to 86 years old so it is likely that the top up will represent value. As individuals in good health can expect to live even longer than the average, they should benefit to an even greater extent. On the contrary, those in ill-health or with a family history of early death are at higher risk of not recouping the initial capital outlay. In any case, individuals in ill health should explore the rates available from enhanced or impaired life annuity providers before making any decision.

Also, it is worth noting that there is already a top up system in place for those who do not qualify for the full state pension. Therefore individuals should ensure they have full entitlement to the state pension before purchasing a top up, as the existing scheme is even cheaper.

There is a small window to apply – from 12 October 2015 to 5 April 2017 and individuals need to consider their own individual circumstances before making a decision.

Aram Kupelian
Paraplanner

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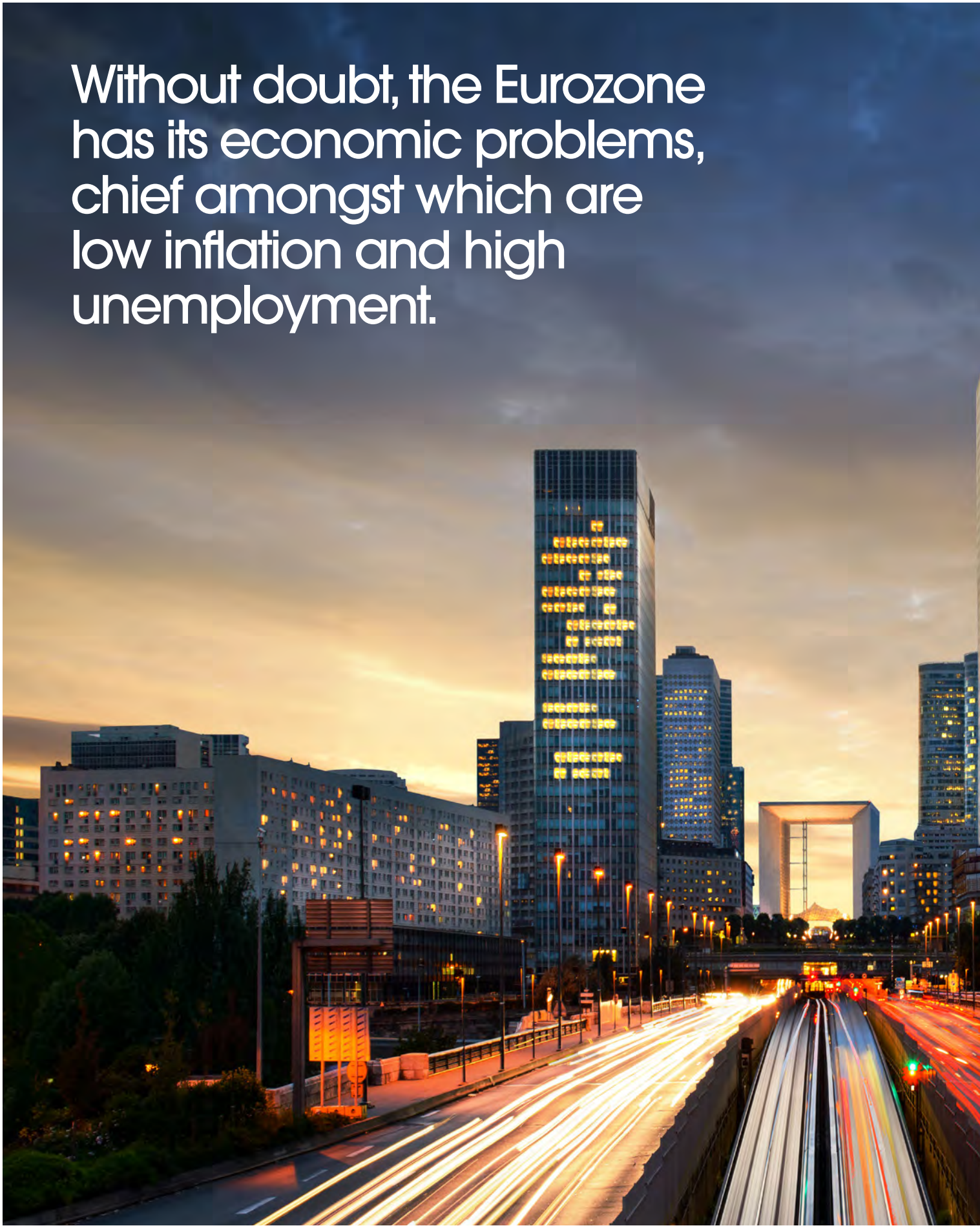
review

Without doubt, the Eurozone has its economic problems, chief amongst which are low inflation and high unemployment.



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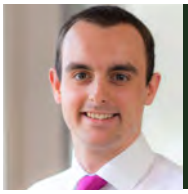
eurozone has anything changed?

Throughout the darkest days of the Eurozone sovereign debt crisis in 2011, where unprecedented debt accumulation in Portugal, Ireland, Greece and Spain threatened to rupture the single currency bloc beyond repair, Eurozone economic growth was derailed by a potent mix of escalating unemployment, unsustainable budget deficits, and structural inefficiencies.

Although the situation in Greece appears to have reached a positive resolution for the time being, the nineteen-member group has been enveloped in both political and economic negativity for some time. Given this, one could be forgiven for believing little has changed over the past four years, that no green shoots of economic recovery are being seen, and, consequently, investment in the Eurozone, in whatever form that may take, remains in the 'best-to-avoid' category. However, is that the reality? That is, if one was to look beyond the pessimism, is the Eurozone of today attractive from an investment perspective?

Without doubt, the Eurozone has its economic problems, chief amongst which are low inflation and high unemployment. Although year-on-year inflation rose to 0.3% in May, it remains far below the historical average of 2% and is perilously close to deflation territory, a most undesirable scenario which, if entrenched, encourages consumers to continually delay purchases in the hope of securing lower and lower prices, to the detriment of the economy. Unemployment remains stubbornly high in some countries, with rates in Spain, Portugal and Greece, at 22.7%, 13%, and 25.4%



Jack Rawcliffe
Investment Analyst

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respectively, far in excess of the Eurozone average of 11.1%, causing pockets of social unrest and placing additional, unwelcome pressure on public finances.

Although low inflation and high unemployment certainly warrant attention, there is a litany of reasons that, in conjunction, are outweighing them and are acting as positive catalysts for growth.

Large scale Quantitative Easing, initiated by the European Central Bank (ECB), amounting to €60 billion per month until September 2016, which in sum, is equivalent to 20% of the entire European equity market, is breeding confidence amongst consumers and businesses alike. Such a loosening of monetary policy has triggered a sharp depreciation of the Euro, which has weakened 12% versus Sterling and 20% versus the US Dollar over the past year, materially benefitting the European corporate sector given that 54% of revenues are sourced outside of Continental Europe.

Additionally, the halving of the oil price over the past twelve months is of major benefit to companies and households, lowering the input costs for the former, and according to analysis by Schroders Asset Management, boosting the disposable incomes of the latter by more than €1,000 each. A supportive central bank, weakening currency and a lower oil price is proving to be a powerful three-pronged economic stimulus for the Eurozone economy.

Furthermore, following the encouraging results of the Asset Quality Review in late 2014, in which 130 Eurozone banks were assessed for capital adequacy and balance sheet strength, banking sector reluctance to grant credit has eased considerably, greasing the wheels of economic activity and satisfying consumer appetite for debt, which latest surveys indicate, is at its highest level since 2001.

At a microeconomic level, very strong retail sales growth is being witnessed, especially within car sales, which are being fuelled by replacement-cycle investment as the average European car is nine years old. The Purchasing Managers' Index (PMI), a gauge that assesses the health of the manufacturing sector by surveying output and employment intentions, has been consistently improving into expansionary territory since late 2014, while headway on structural reforms, so desperately needed in 2011, is also being made, with Ireland and Spain blazing a trail for other economies to follow.

The prevailing reality within the Eurozone is that economic tailwinds significantly outweigh economic headwinds

The prevailing reality within the Eurozone is that economic tailwinds significantly outweigh economic headwinds. If underlying economics engender a favourable investment view on the Eurozone, the inevitable question is what form should an investment take? Is it bonds or equities? With regard to the former, the colossal size of the ECB's Quantitative Easing programme, coupled with deflation fears, is having a highly distortionary effect on the sovereign bond market, driving yields ever lower and prices ever higher. At one point in May, some 25% of the multi-trillion-Euro sovereign bond market was trading with a negative yield, theoretically meaning that bond investors were willing to lend their money to European economies and pay, not be paid, for the privilege of doing so. Such a scenario defies conventional wisdom of bond investing and illustrates the extent to which European sovereign bond markets have become grossly overvalued. Although there has been a sell-off since, there remains very little value on offer, and a scenario of rising yields and falling prices is likely to triumph over the next two to three years given an eventual cessation of Quantitative Easing and an increase in inflation.

In contrast, Eurozone equities appear to represent a far more enticing opportunity

In contrast, and despite the emerging refugee crisis, Eurozone equities appear to represent a far more enticing opportunity. The weaker Euro is enhancing top-line revenues, a lower oil price is reducing the cost of raw materials, and consumers, equipped with greater disposable incomes, have greater appetite and confidence for discretionary spending, improving cash flow and overall profitability of the corporate sector. These factors, alongside a marked reduction in corporate debt, are fuelling a multitude of positive earnings revisions market-wide, which is likely to be reflected in higher share prices given time.

At a market level, valuation metrics also appear favourable, with the Shiller price-to-earnings ratio (a metric used to assess value) currently reading circa 16x, significantly below the historical average of 20x. What's more, historical analysis conducted by JPMorgan suggests that, between November 1979 and February 2015, a price-to-earnings ratio of 16x was, on average, followed by a return of 17% per year for the next five years. Of course, this is by no means guaranteed and may not be repeated, but it demonstrates the potential significance of current equity valuations.

It would seem then that the Eurozone of today is decidedly different to the Eurozone of 2011. Granted, parallels can be drawn between the two in terms of the headlines, but, beyond this, the region unquestionably has a far sounder economic footing now than it has for some time.

Economically, the Eurozone is becoming attractive again, and equities stand out as the most compelling access point.

At Holden & Partners we have been actively allocating to European equities within our higher risk portfolios, with our preference being funds that adopt an unconstrained, benchmark-agnostic mandate, allowing their managers to scour the entirety of the European equity market for the most profitable opportunities.

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using ISA's for retirement planning

Pensions and Individual Saving Accounts (ISA) are both great tax efficient ways to save, but there are advantages and disadvantages which individuals should be aware of.

Pensions

The key attraction of pensions is that personal pension contributions are topped up by tax-relief, meaning a basic rate taxpayer's contributions are increased by 20%. A higher rate taxpayer at 40% receives a further 20% tax rebate as well as the basic tax relief. Additional rate taxpayers at 45%, receive a further 25% tax rebate as well as the basic tax relief. The other advantage is the ability for employers to save into pensions on their employee's behalf. The current rules allow individuals to contribute 100% of earned income up to a limit of £40,000 per annum. In addition, up to £190,000 can be paid into a pension through the use of carry forward of unused relief for up to three years (if this allowance has not been used in previous years). This allows for larger pension contributions to be made into pensions for those that earn under £150,000 per annum.

The summer budget, however, gave notice that as of the next tax year, individuals whose taxable income exceeds £150,000, will be affected by how much can be contributed to a pension. For those with income exceeding £150,000, the Annual Allowance of £40,000 will be reduced by £1 for every £2 that 'adjusted income' exceeds £150,000, up to a maximum reduction of £30,000. The carry forward of unused annual allowance will continue to be available, but the amount available will be based on the unused tapered annual allowance. To prevent retrospective taxation, individuals will have an £80,000 annual allowance for 2015 to 2016, for those contributions registered from 6 April 2015 to 8 July 2015, but subject to a £40,000 allowance for savings from 9 July 2015 to 5 April 2016.

A pension fund grows largely tax free, with no capital gains tax and no further income tax to pay on dividend income, thus providing an environment for tax efficient investment growth.

An additional benefit of pensions is the ability to release up to 25% of the fund tax free. The remainder of the pension will be taxed on withdrawal. The announcements made in the 2014 budget brought pensions back into focus. The new rules provide flexibility in how benefits are taken from pensions with the ability to take the whole of the pension as a cash lump sum.

There are important considerations that need to be taken into account before any decisions are made as income tax is chargeable at an individual's marginal rate (after the deduction of 25% tax free cash). Although income drawdown through a pension offers an alternative to purchasing an annuity, there is a need for initial and ongoing advice to ensure the most suitable approach is selected. You need to ensure your pension can provide you with a sustainable income in your lifetime.

In addition, another benefit of pensions is that any uncrystallised pension funds fall outside of your estate for inheritance tax on death, tax free if you die before age 75. If you die on or after age 75, this will be subject to 45% tax for payments made between 6 April 2015 and 6 April 2016. From April 2016, this will be taxed at the beneficiaries marginal rate of income tax.

Individual Saving Accounts (ISA)

The annual individual savings account (ISA) allowance is currently £15,240, in any combination of cash and investments, so a couple between them can contribute £30,480 to ISAs in the current tax year.

With an ISA, no tax relief is given on funds paid in. ISAs also offer an environment which offers tax reduced dividend payments for higher and additional rate tax payers and tax free interest payments. Importantly, income from ISAs is paid without deduction of tax, unlike pension income which is taxable at an individual's highest rate income tax. Significantly, ISAs, unlike pensions, can be accessed at any time.

From 6 April 2015, individuals who are married will potentially benefit from the allowances of deceased spouses and civil partners. This is in the form of an additional permitted subscription limit, equal to the value of the ISA at the holder's death, and is in addition to the survivor's own ISA allowance. So if an ISA holder dies, leaving an ISA value of £100,000 at the date of death, the spouse is entitled to an additional ISA allowance of £100,000. This is in addition to their own ISA allowance.

A disadvantage of ISAs is that contributions are limited to £15,240 per annum. Another disadvantage concerns the fact that it is not possible to carry forward unused ISA allowances.

In conclusion, it is worth thinking about the tax efficiency of pensions versus the flexibility of ISA's. Pensions should still form the basis of retirement planning due to the tax relief available on pensions contributions and the ability for employers to make contributions. ISAs do however remain a more flexible way of saving. Perhaps the best solution for most individuals is where possible, depending on circumstances, to use a combination of both pensions and ISAs for retirement planning.

Reece Biggadike
Financial Adviser

pensions are STILL all about tax planning

Recent surveys suggest two in three people drawing on their pensions are choosing to strip them all out as cash, wasting thousands of pounds on unnecessary tax. However, the reality is the average pension pot being crystallised is actually less than £15,000.

Our experience is somewhat different, we are finding that our clients are not raiding their pensions following the recent "Pension Freedom" reforms and instead are far more interested in leaving the money behind when they die, using their pension as part of their inheritance and succession plan.

The new rules have made pensions an attractive vehicle for passing on wealth to loved ones, possibly tax free, moving the focus from pensions as a primary source of income to other less inheritance tax efficient assets, such as ISAs and general investment accounts. This is because pensions do not make up part of your estate for inheritance tax (IHT) purposes and instead, until these changes, had been subject to a 'death tax' of 55%. However, under the new rules, if a person over the age of 75 dies leaving a pension pot, that money can be passed on to anyone they choose – a spouse, children, grandchildren, or even friends, at a reduced rate of 45% (for 2015/16).

The situation improves again from the 2015/16 tax year, where tax will only be charged at the marginal rate of income tax paid by the beneficiary, which could mean no income tax, where, for example, the beneficiary is a grandchild.

For those who die before age 75, the whole of a pension fund can passed on tax-free to beneficiaries, irrespective of whether you have crystallised any or all of the pension fund. Furthermore, if the funds remain in your pension and are only drawn down when needed by your chosen beneficiaries, they will avoid compounding any inheritance tax that they may already be faced with.

These changes are now cited as a major reason not to withdraw money from a pension, instead your pension can be considered as a "family" pension, continuing way beyond death, particularly for those who have wider sources of personal wealth and can choose to reduce their pension income.

All assets other than pensions make up part of an estate for IHT purposes and the 40% tax, under current legislation is levied above the nil rate band of £325,000. However, by drawing an income from these assets, reducing the assets in your estate, while ring-fencing the pension, means there is a double tax saving.

This change means that pensions are not purely thought of in retirement terms, but as a tax planning tool, particularly where people are still working and it has taken the pressure off pensions as the source of income.

For those looking at passing on assets to their beneficiaries, (who don't want to make lifetime gifts), their pension may be the best way of doing so.

Mark Dodd
Partner

Holden & Partners
The Piano Works
117 Farringdon Road
London EC1R 3BX

www. holden-partners. co. uk

+ 44 (0) 20 7812 1460 hpreview@holden-partners. co. uk

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and partners