BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER

April 2015

It's plain sailing...

# Investing for Kids

A recent study conducted by the Centre of Economic Business Research revealed the average cost of raising a child in the UK from birth to age 21 is almost £230,000 and has risen over 50% faster than inflation over the past ten years. The average cost of private school fees in the UK are £12,400 per year and researchers forecast this will double by 2027. University fees can be up to £9,000 per year, whilst a recent NUS study revealed the average annual cost of living for university students in England (excluding London) is £12,056. Against this backdrop, at Birchwood we believe it has never been more important to start investing for children as early as possible. This article outlines various ways to do so.

Junior ISAs (JISAs) were established in November 2011 as a tax-efficient savings vehicle for children under age 18. They replaced Child Trust Funds (CTFs), which were launched in 2005 and any child not eligible for a CTF can invest in a JISA (i.e. children born after 3 January 2011 or those under age 18 and born before 1 September 2002). From April 2015, existing CTFs can be transferred into a JISA.

The annual savings limit for Junior ISAs is £4,000 in the 2014/15 tax year (£4,080 in 2015/16 tax year). JISAs can be held in Cash or within a Stocks and Shares plan. Each child may have either type and can transfer funds between the two. The latter provides opportunity for higher returns through diversification across asset classes. JISAs provide shelter from tax on income and growth (as usual, the 10% tax credit on dividends cannot be reclaimed).

Anyone can fund a JISA but they must be set up by a parent or legal guardian. The JISA belongs to the child and cannot be withdrawn prior to age 18. From then, JISAs can be switched into a regular ISA to retain their tax-efficient status, or withdrawn.

Given the long-term nature of Junior ISAs, there is scope to accrue substantial pots of money. If a parent or grandparent invests £333 per month (£4,000 per annum) at a net growth rate (after charges) of 5% per annum, the fund could grow to in excess of £115,000 by the child's 18th birthday. At a more conservative growth rate of 2%, the fund could still build to over £86,000.

Alternatively, parents can set up designated investment accounts for children and invest in collective investments on their behalf. The way in which an account is designated will affect its tax consequences and advice will be needed on this.

It is even possible to set up pension funds for children. Stakeholder pension plans for children are simple, tax-efficient wrappers to provide for a child's long-term future. They can be funded by any family member, and are flexible in terms of the level and frequency of contributions. If the child has no taxable earnings, the maximum net contribution on which basic tax relief is granted is £2,880 so £3,600 gross is invested. With all of these options to consider, it's always worth remembering that whatever their age it's never too late to start the savings habit.

# 1 in 4 would like to sell their annuity

A quarter of annuity-holders would like to sell their annuity, following new pension freedoms for existing retirees announced in the 18 March Budget.

From April this year, from the age of 55, people with defined contribution pension savings have much greater flexibility over the way they use their pension pots, enabling them to buy an annuity, take the whole amount as a lump sum or keep the money invested and draw an income from it, taking further lump sums if they wish.

Chancellor George Osborne announced on 18 March that from April 2016, people already receiving income from an annuity would be able, with the agreement of the annuity provider, to sell the income to a third party. The proceeds of the sale could be taken as a lump sum or drawn down over a number of years, with tax levied at their marginal rate. At present, people wanting to sell their annuity face a 55 per cent tax charge, or up to 70 per cent in some cases.

On 23 March, over-50s specialist Saga released the findings of a survey of 2,062 annuity-holders revealing that a quarter would like the option to sell in exchange for a lump sum. More than half (58 per cent) said the reason was that the monthly income their annuity generated was too small for them to do anything meaningful with it.

Saga director Paul Green said: "It is great that the Chancellor plans to build on trusting people with their pension savings by allowing people who already have an annuity in place to obtain a lump sum. However, this is not a decision to be taken lightly, it will be important to get the right advice before they empty their annuity pots."

At Birchwood, we recognise that the pensions environment is complex and that these ongoing reforms can make it even more challenging to make decisions that will maximise future financial security. For more information on any aspect of pensions or retirement planning, please contact us.

# Using pensions to protect assets

Among the new pension rules being introduced from 6 April 2015, one of the most publicised was the abolition of the 55% 'death tax'. Under the current regime, if an individual has crystallised pension funds on death, the payment of the pension fund as a lump sum is subject to a 55% tax charge. All funds post age 75 are automatically treated as crystallised on death, leaving some individuals with the prospect of passing a large proportion of their pension fund to HMRC on their demise.

Under the new regime, the position on death is simpler. If an individual dies under age 75, broadly speaking the whole pension fund can pass to any nominated beneficiary(ies) free of all taxes. The beneficiaries can then draw on the fund free of tax (as long as an income/ lump sum is paid within two years of death).

Where death occurs after 75, the whole pension fund can pass in-situ to any nominated beneficiary(ies) free of tax, and then when the beneficiary chooses to draw from the fund at any age, the funds drawn are treated as income and taxed at the beneficiary's marginal rate of income tax.

The new rules permit inherited pension funds to be passed on after the initial beneficiary's death. The same rules apply, so if a beneficiary dies under 75, the fund will pass on to their named beneficiaries to be drawn free of tax.

Significant advantages of the new regime are as follows:

- Individuals are not penalised on death prior to age 75 for having a crystallised pension.
- The pension fund can pass to any named beneficiary while remaining within the pension wrapper.
- If an individual dies post 75, their beneficiaries pay tax at their marginal rates which may provide further tax efficiencies.
- Potentially, the pension fund could pass through multiple generations, thus being an effective estate planning tool.

### Case Study

David and Mary are married and have two children and several grandchildren. David has built up a large personal pension and has completed an expression of wish in favour of Mary. David dies in January 2016 aged 65 and Mary needs advice on her late husband's pension fund.

The trustees will usually take account of David's wishes, though they retain discretion. As David died under 75, the choices for Mary are as follows:

1. Enter drawdown and start drawing a tax-free income from the plan.
2. Take a lump sum death benefit, which will be paid tax-free.
3. Buy an annuity, which would be paid tax-free.

Mary chooses drawdown, giving her a tax-free income for life. She immediately completes an expression of wish on her death in favour of her children. Mary survives until she is 90.

On her death, the scheme offers her beneficiaries the choice of either drawing an income or taking a lump sum benefit, both taxed at the recipient's marginal rate. Mary's children should consider the size of the remaining fund and the impact this would have on their tax position if taken as a lump sum. Additionally, funds within "successor drawdown" remain outside the estate for inheritance tax purposes so this may provide further estate planning benefits in the future.

# Market Report

27 March 2015

## Global Review

Events in Europe have dominated the headlines with the re-emergence of a possible Greek exit from the Eurozone the principle concern for financial markets in January. However, a subsequent agreement between the new anti-austerity government in Greece and the troika of the International Monetary Fund, the European Central Bank and the European Commission, together with the announcement of a much anticipated programme of quantitative easing from the ECB, have propelled equity markets to new all-time highs.

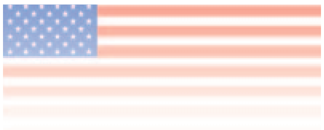
The collapse in the price of oil from over $110 per barrel to below $50 has driven down inflation across the globe prompting many central banks to cut interest rates in reaction to softening economic data. Most notably, US numbers disappointed in all areas except the labour market and this pushed expectations of an interest rate rise from the Federal Reserve back out to the end of the year. This was re-enforced by the Fed Chairman, Janet Yellen, in her recent forward guidance allowing further equity market advances.

## UK

The benchmark FTSE 100 index closed at a new all-time high of 6949.6 on the 24 February surpassing the previous record set during the dotcom bubble on 31 December 1999. The resolution in Greece, a larger than expected programme of quantitative easing from the ECB and the receding threat of higher borrowing costs was more than enough to offset any concerns of a hung parliament in May's general election. Whilst the Budget in March was also well received, it was news on the same day of the US Federal Reserve's decision to delay interest rate hikes that provided the impetus to then push the Index over 7000 for the first time.

Mirroring other developed economies, UK national output slowed in the final quarter of last year with growth confirmed at 0.5%. Whilst lower than the third quarter, growth for the year as a whole was up a healthy 2.6% on 2013. This did not stop the governor of the Bank of England suggesting the possibility of further quantitative easing in response to the threat of deflation. Lower fuel and food prices have subdued inflation with the Consumer Price Index flat year-on-year in February, the lowest figure recorded since the measure was introduced in 1997.

## US



A sharp fall in US economic growth during the final quarter of 2014 coupled with a disappointing company reporting season has allowed the Federal Reserve to push back the timetable for interest rate hikes. Consensus had brought forward the first rise in the cost of borrowing as economic growth accelerated throughout 2014 and equity markets achieved new record highs in December. However, in her latest statement Chairman Yellen wed any future rises to the fortunes of the economy allaying fears of an immediate tightening in monetary policy.

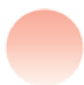
US corporates are beginning to feel the impact of a strong dollar with clear divergence between US policy and those of Europe and Japan. Whilst the US have ended quantitative easing and are expected to raise interest rates in 2015, Europe and Japan are still committed to large scale stimulus measures and near zero interest rates. The weak oil price, with equilibrium well below the recent peak of $115, also leaves questions over the sustainability of the shale gas boom and its impact on capital investment and the jobs market.

## Europe

Victory for the anti-austerity Syriza party in the Greek elections prompted equity markets to fall in early January as fears grew of a break-up in the Eurozone. Syriza campaigned on a promise to renegotiate Greece's bailout terms and if successful could swell support for other anti-austerity movements across the continent. In response the European Central Bank hinted strongly that it would extend quantitative easing before finally delivering a larger than anticipated €1.1tn stimulus package in the following weeks.

The extension of quantitative easing had been widely expected after the Eurozone fell into deflation in December. Consumer prices fell for the first time in five years with the collapse in the oil price the main driver. However, core inflation which excludes energy also remains well below the Bank's 2% target emphasising the need for stronger action. The euro has fallen in reaction to both the Greek election result and the extension of quantitative easing and only avoided parity with the US dollar as the Federal Reserve backed away from early action on interest rates.

## Japan



Further falls in the yen have pushed the Nikkei 225 to a new 15-year high with corporate profits, capital spending and employment all benefiting from weakness in the currency. There was also better news from exporters in January with the expected boost in trade finally materialising. However, further weakness in the yen could dampen consumer spending which is responsible for 60% of GDP as import costs rise. Falling consumer demand would jeopardise the Bank of Japan's efforts to achieve its 2% target for inflation, a core policy of Abenomics.

Consumer sentiment was hit by the sales tax rise in April last year and this was blamed for the two subsequent quarters of negative growth. Whilst the economy did emerge from recession in the final three months of 2014, growth of 0.6% was disappointing with a stronger rebound expected. Whilst basic pay also grew at its fastest pace for 15 years in January, real wages are still down year-on-year due to the sales tax hike. Prime Minister Shinzo Abe continues to call for higher wage settlements, recognising the importance of consumer demand to achieving the inflation target.

## Asia

China's economy expanded by 7.4% last year, only 0.1% short of the government's target, but still the lowest rate of growth for 24 years. In response, The People's Bank of China has again cut interest rates and reduced the reserve requirement ratio for lenders thereby releasing an estimated $100bn into the economy. The challenges of balancing consumer led growth with rising debt levels has been recognised by the government's lower 7.0% target for growth in 2015.

The introduction of a revised method to calculate GDP by the Indian government has seen the country overtake China as the world's fastest growing economy. Using the new measure the economy expanded by 7.5% in the final quarter of last year. Official estimates are forecasting economic expansion in excess of 8% in the next fiscal year as the new government begins to implement planned reforms. The latest budget announced an increase in infrastructure spending as well as moves to improve the business climate that included a reduction in corporate tax rates.

# Apprenticeships - Get In, Go Far

The second phase of the Apprenticeships Get In, Go Far campaign ran until the end of March 2015 and was targeted at young people, parents and employers. It aimed to inspire young people to consider an apprenticeship on a parallel to A Levels and University but with the added incentive of being able to 'earn while you learn'.

Before this recent initiative, in early 2013 we at Birchwood identified an area in our administration that required some additional manpower and we were looking to recruit a young person that we could develop and train within the company. A timely approach from John Laing Training provided just what we were looking for, an apprentice.

Charlie Ferry age 17 joined Birchwood in May 2013 as a Paraplanner Support Administrator, providing support to three Paraplanners and Financial Advisers. After attaining GCSE passes he was originally moving on to do A Levels and hopefully University but then decided that with the costs involved, he would rather 'earn while you learn' and applied for the position through the John Laing Apprenticeship scheme. In his first year he passed Level 2 in Business and Administration and is now working towards Level 3. More importantly for Birchwood he has slotted into the company and has developed the position and is proving to be a valuable asset to the company. He has a great work ethic and has been working in his spare time in an old people's home and in the run up to the festive season he sells Christmas Trees. At the end of his first year Birchwood offered Charlie a permanent position as a Trainee Paraplanner working directly for one of our Financial Adviser's Darren Weir.

With Charlie's original position now vacant, we needed a replacement and we looked to John Laing once again. Sam Rafferty through an indirect link to Charlie, heard of the position and applied for the job through the Apprenticeship scheme and joined Birchwood in August 2014.

Sam achieved 10 GCSE's at B and C levels and also an AS in Sociology but decided he would rather be in work than education. Sam has had some experience of employment having worked in retailing, a sales adviser in a security firm and as a marketing co-ordinator in an internet company. He has experienced redundancy and working on short term contracts but wanted a position where he could receive training to build up a career path for the future. He is now working towards Level 2 in Business and Administration and from Birchwood's point of view has been instrumental in helping to develop a new administration system which we have now adopted as part of our internal procedures. With the end of his first year coming up in the summer we have already decided to offer him a permanent position as a Trainee Paraplanner, working with our Senior Paraplanner supporting one of our Directors. Sam and Charlie will go on to study the financial planning exams which will hopefully set them on the road to career progression and success.

Apprentices Sam (left) and Charlie (right)

Although many Government schemes can seem a waste of time, we believe both Charlie and Sam have benefitted from the Apprenticeship scheme and at Birchwood we have gained two excellent new members of the team. Unfortunately, we will of course have to start looking again for yet another replacement!

# 2015 4x4 in Schools National Final

The 4X4 In Schools Technology Challenge is an enhancement and enrichment initiative that gives young people an insight into what it takes to become an engineer. The project hopes to raise awareness, interest, enjoyment and enthusiasm in science, technology engineering and maths through a practical 'hands on' experience. The challenge is aimed at young people aged 11-19 years old (key stages 3, 4 and 5) and involves 4 to 6 team members working together to design and build a radio controlled 4-wheel-drive (4X4) vehicle to set specifications, that can successfully negotiate a specially designed test track that emulates that of real life and what a full scale 4X4 vehicle can do.

Birchwood were asked to help with the sponsorship of the Richard Hale School team, by Becky Haslam, which we were happy to do and the team went forward to the 4X4 in Schools National Final on Friday 27th March. The team was made up of four 11s: Jake Haslam, Josh Davies, Henry Vincett-Wilson, Barty Pitt and one Year 8, Kieran Gunn. Following their qualification by winning the Regionals on the 22nd January, the boys worked incredibly hard to be ready for the National competition. The Technology and Engineering department of Richard Hale School in Hertford said they would like to thank sponsors for all their generosity and support for the team, "we are incredibly grateful, to Birchwood Investment Management Ltd, Ekins Builders Ltd and Mouchel & Shepherd Audio".

The Nationals this year were the most competitive so far with 24 teams in attendance. With the prospect of a place in the first international final as a reward for a top 3 position, the stakes were high. All throughout the day the boys received high praise from judges on their highly professional attitude, excellent engineering capabilities, knowledge and their ability to explain their ideas and decisions in a clear and concise way. The team were in the top three all the way through the day, but sadly had a really tough time on track and dropped back into 4th position at the end. Fortunately the team did not come away empty handed, and won the judges "Innovative Thinking" award for their excellent steering system.



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