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THE CREDIT CRUNCH, HOW DID IT ALL BEGIN?

A knock-on effect for credit markets and the wider world economy

BANKING BAIL-OUT

£500bn underwritten and guaranteed by the Treasury



FESTIVE STOCKING FILLERS

an alternative gift for children this Christmas

PRESERVING YOUR WEALTH

make sure your heirs are not left facing an unexpected tax bill

PROTECTING THE UNEXPECTED

peace of mind when you need it most

UK OFFICIALLY ON THE BRINK OF A RECESSION

government measures intended to lessen the effects

Roxeth House, Shaftesbury Avenue, Harrow, Middlesex HA2 0PZ

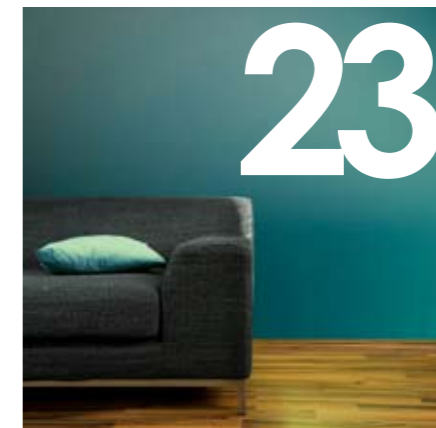
Tel: 0845 290 3701 Fax: 0845 290 3702

Email: advice@justamo.com Web: www.justamo.com

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THE CREDIT CRUNCH, HOW DID IT ALL BEGIN?

A KNOCK-ON EFFECT FOR CREDIT MARKETS AND THE WIDER WORLD ECONOMY

As financial institutions globally announce varying degrees of difficulties and losses caused by toxic assets and bad debts held on their balance sheets and with the share prices of some of the UK's largest banks falling to unprecedented levels, the word 'subprime' has become synonymous with these historic events.

The beginning of the subprime mortgage crisis can be traced back to 2001. During this year the US economy was first hit by the dotcom bubble crash, which was then followed by the events that took place on September 11th. In the wake of this, the US Federal Reserve dropped interest rates to 1 per cent, making borrowing cheap as the US housing market began to boom. Many mortgage lenders thought they saw a particularly lucrative market by lending to adverse credit subprime borrowers, because they would be able to charge higher interest rates to their higher-risk customers.

As house prices continued to increase until 2006, refinancing these mortgages through homeowner loans or remortgaging was relatively easy. However, house prices had increased sharply along with interest rates, and by the end of 2006 house prices began to deflate. Soon the US housing bubble popped and house prices slumped, leaving many people in a position where they found it difficult to

refinance due to negative equity in their property. People began to default on their mortgages, and this became even more apparent during 2007 and 2008 with many more properties being repossessed as a consequence.

A considerable number of mortgage lenders who lent to subprime borrowers repackaged their debt as mortgage-backed securities (MBS). The cash flow of these had been backed by the principal and monthly interest payments of the mortgages. Because of the boom in the US housing market, many banks and hedge funds saw MBSs as good investment opportunities. However, when the cashflow on them stopped due to borrowers defaulting, the securities lost their value, resulting in huge losses for those that had invested in them. As a result these events have had a knock-on effect on credit markets and the wider world economy, and are the route of the current financial crisis we are experiencing.

“ A considerable number of mortgage lenders who lent to subprime borrowers repackaged their debt as mortgage-backed securities (MBS). ”

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BANKING BAIL-OUT

£500BN UNDERWRITTEN AND GUARANTEED BY THE TREASURY

The Prime Minister, Gordon Brown, announced on 8 October 2008 that he would make available hundreds of billions of pounds to underwrite banking debts that would be underwritten and guaranteed by the Treasury. This unprecedented action was taken in an attempt to underpin the financial markets, prevent a complete collapse of the system and stave off a deep recession.

Taxpayers could end up becoming liable for this £500bn bail-out and some banks are likely to become partially nationalised as a result. On the same day a number of world banks, including the Bank of England, also cut their interest rates in a coordinated attempt to bring some reassurance to the global financial markets.

The Bank of England's Monetary Policy Committee (MPC) cut the base rate by 0.50 per cent to 4.5 per cent, the biggest cut for seven years. This was subsequently followed by some of the biggest mortgage lenders reducing their variable and tracker rates. Millions of homeowners should benefit from the 0.50 per cent cut to interest rates, as the Halifax and Bank of

Scotland, owned by HBOS, Lloyds TSB and Woolwich, the mortgage arm of Barclays, announced they would all pass on the full rate cut to homeowners on their standard variable rates. The new rates come into force on 1 November 2008.

Under the terms of the emergency rescue announced, the UK government will raise up to £50bn to buy stakes in at least eight banks. Taxpayers will buy specially issued preference shares in these banks, and the government has set a three-year period to recover this money. Banks will also be able to borrow higher levels from the Bank of England for short-term loans, offering credit of £200bn under its special liquidity scheme.

The Chancellor, Alistair Darling, also announced that the 300,000

UK retail Icesave savers with £5bn deposited in the Icelandic internet bank would have their deposits guaranteed even if the deposits were worth more than £50,000. Commenting, Alistair Darling said the implications for the public finances of the 'essential' measures were 'exceptional and mostly temporary and will protect taxpayers by ensuring stability in the economy now.'

This was followed by warnings that more than 100 local councils, police authorities and fire services could lose up to £1bn currently held in Iceland's bankrupt system. Charities, including children's hospices, have also warned they could be at risk of losing £25m.

UK OFFICIALLY ON THE BRINK OF A RECESSION

GOVERNMENT MEASURES INTENDED TO LESSEN THE EFFECTS

The government is attempting to limit the effects of the credit crisis on the British economy through the part-privatisation of some of the UK's ailing banks. It hopes that by guaranteeing loans and securing the future of UK banks, it can stem the flow of cash out of the country to other countries that have guaranteed the safety of deposits in their banks, such as Ireland.

It also hopes that the banks will start lending to each other and, in turn, cut the cost of borrowing to Britons and UK businesses, which should help all consumers in the long term by securing their savings and helping to preserve jobs. The credit crisis is not over, but in the long term, the government's measures are intended to lessen the effects of a deep recession by ensuring that banks continue to lend to people who can afford to pay them back.

According to data released on 23 October, the UK is now officially on the brink of a recession. Figures showed that the economy shrank for the first time in 16 years between July and September. A recession is defined as two quarters of negative Gross Domestic Product (GDP) growth.

If the government were to allow the banks to fail, there would be a knock-on effect for people and the likelihood of large-scale job losses and higher housing repossessions. It is unclear at the present time whether the money borrowed by the government for the funding of this bail-out will require taxes to be raised, or whether it will mean less money for public sector spending.

The Prime Minister, Gordon Brown, initially announced on 8 October 2008 that he would make available hundreds of billions of pounds to underwrite banking debts that would be underwritten and guaranteed by the Treasury. This was followed on 13 October by an announcement that the government would provide up to £37bn of taxpayer funds to help the UK banking system.

The rescue bail-out unveiled was for three of Britain's biggest banks. The government had previously said that it would use taxpayers' money to inject cash into UK banks in return for a stake in the banks. As many of the banks' share prices have been trading well below, this could mean that taxpayers make a profit in the long term if the government's stake is sold at a higher price once the banks have recovered.

Royal Bank of Scotland (RBS) would raise £20bn of new capital through a government-guaranteed £15bn share issue and a £5bn government cash injection. Lloyds TSB would also raise £5.5bn of new capital, and said it would revise the terms of its acquisition of rival HBOS.

HBOS itself would seek to raise from government £11.5bn of

additional capital, including £3bn worth of 'preference shares' to be held by the UK government. Preference shares rank above ordinary shares in terms of payments but don't come with voting rights attached.

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COMPLETING YOUR TAX RETURN

TAX DOESN'T HAVE TO BE TAXING, BUT DON'T MISS THE DEADLINE

The deadline for those wishing to complete paper tax returns for the 2007/08 tax year was brought forward to 31 October this year. Although the later deadline of 31 January still remains, this is now only available to those who complete returns online.

If you are one of the 9 million people required to complete a tax return it is possible to make the whole process stress free if you are prepared. One of the prerequisites of this is to be organised and make sure that you have all the relevant papers, forms and information together.

Initially, you need to establish whether you are required to complete and file a tax return. If you believe you have to file a tax return but haven't received a form from HM Revenue & Customs (HMRC), you should take action immediately.

It is important to gather together all of the information you will need to complete your tax return. This will include:

- The self-assessment form SA100 (additional forms are required for more complicated tax matters, such as income from abroad and income from letting property)
- Details on all income (including accounts if self-employed)
- P60 and P11D forms from employers and pension providers
- Interest statements from bank/building societies
- Information on dividends from trusts and shares
- Life insurance policy payments; and details on anything you can deduct (pension contributions, gift aid)

It may seem obvious, however be aware that a form that is not completed correctly may be rejected by HMRC. Don't forget to sign and date the form, and make sure you fill in all the boxes that apply to your particular situation. If there are any significant changes on your return to last year, tax inspectors would want to know why. An explanation should also be included on the form.

It is also a requirement that records of all information used to complete tax returns must be kept for 22 months after the end of the tax year, or for five years and 10 months for those carrying on a business or who have income from letting out property. There is a maximum penalty of £3,000 for each tax year for which records have not

been kept. You should also keep a photocopy of your tax return in case it goes missing in the post and for future comparisons.

If you are planning on submitting your tax return to meet the 31 January deadline, it would be prudent to start preparing now.

“If you are planning on submitting your tax return to meet the 31 January deadline, it would be prudent to start preparing now.”



THREE-PART FINANCIAL RESCUE PACKAGE

REDUCING THE EFFECTS OF THE CREDIT CRISIS ON THE UK ECONOMY

By taking the action of bailing out the banks, the government is attempting to reduce the effects of the credit crisis on the UK economy. The government also wants to stop cash flowing out of the UK to other countries, many which have guaranteed the safety of deposits in their banks. By guaranteeing loans and securing the future of UK banks through part-privatisation, the government hopes the banks will start lending to each other again. The effect of this would be that both individuals and UK businesses should start to benefit from future rate cuts in the cost of borrowing.

The three-part package initially included committing up to £50bn of taxpayer funds for a partial nationalisation of the struggling banks, and this is in return for a stake in them. As many of the banks' share prices are trading at their lowest levels for nearly two years, this could mean that taxpayers eventually

make a profit in the long term if the government's stake is sold at a higher price once the banks have recovered.

This was followed on 13 October by an announcement that the government would provide up to £37bn of taxpayer funds to help the UK banking system. This will be paid for by increased public borrowing, and political strings will also be attached that include reining in executive pay.

In addition, the Bank of England is to pump at least £200bn into the money markets under its existing Special Liquidity Scheme. The government is also making a further £250bn available for banks over the next three years to guarantee medium-term debt to help restore confidence and get banks lending to each other again. At the time of going to print, it was unclear whether the government would have to increase taxes or make cuts in public spending.

DID YOU KNOW?

The taxpayer will fund the total \$700bn US bailout, the plan which was almost derailed several times as the House of Representatives voted against it. The \$700bn will be used to buy bad and toxic debts from struggling banks to clear up their balance sheets.

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THE CORPORATE CREDIT CRUNCH

TEN TIPS TO SURVIVE
THE CREDIT SQUEEZE

News of the three-part package to bail out the banks in an attempt by the government to restore confidence in the financial markets and encourage them to lend to each other again will come as welcome news to many business owners. But until the credit lines start flowing again, it is prudent for businesses to keep a close eye on their financial positions. Here are ten tips for surviving the credit squeeze.

1. Put cashflow and financing on the agenda for every management meeting.
2. Regularly update your cashflow forecasts.
3. If there is a conflict between profitability and cashflow, take the cashflow option.
4. If you have a term loan or overdraft, be aware of any covenants and constantly monitor how close you are to breaching them.
5. Prepare thoroughly if a review is coming up on any of your financing facilities.
6. If limits might be threatened, 'think the unthinkable' regarding the sale of assets.
7. Talk to current financiers before you get into difficulties. Otherwise you devalue future forecasts.
8. Make sure that all types and sources of finance have been fully considered.
9. Invest time talking to new sources of finance. You might need them if your current providers prove difficult.
10. If you are 'cash rich', draw up a list of ways in which you could use surplus cash for the longer-term benefit of the business.

Source: ICAEW 2008

PRESERVING YOUR WEALTH

MAKE SURE YOUR HEIRS ARE NOT LEFT FACING AN UNEXPECTED TAX BILL

Many UK households could be at risk of paying inheritance tax (IHT), the tax which is charged at 40 per cent on the value of your estate over the nil-rate band threshold – currently £312,000 for an individual and £624,000 for a married couple, (2008/09 tax year).

The government has reversed many popular IHT schemes during its term in office. Tens of thousands of families who set up home-loan trusts to avoid the tax were affected by a crack-down on preowned assets in 2005.

A tax to discourage the use of certain types of trusts was also announced in 2006, and in 2007 the government announced it would be paying closer attention to lifetime gifts.

Many families do not start thinking about IHT planning until it is too late, so the first thing to do is to work out if the tax will be an issue. Add up the value of your savings, investments, properties and other personal possessions. Don't forget to include funds held in an Individual Savings Account (ISA) wrapper. Although an ISA is tax-free during your lifetime, they are subject to death duties. You only pay tax on the value of your estate over the nil-rate band threshold. In the 2008/09 tax year the threshold is £312,000.

IHT is not payable when an estate passes between a husband and wife, or from one civil partner to another. Even better, married couples or civil partners can transfer the unused element of their IHT-free allowance to their spouse when they die. A couple would escape tax on £624,000 (2008/09) by doubling up the allowance this financial year. In 2010, when the nil-rate band threshold rises to £350,000, a married couple would escape tax on £700,000.

Giving away assets during your lifetime is a simple and legitimate way to mitigate potential death duties, as long as you do it in time. You can gift up to £3,000 a year and it is immediately exempt from IHT,

or £6,000 if you did not make a gift of this kind in the previous tax year.

A married couple giving for the first time could, therefore, hand over £12,000 to their children in one year. After that, the maximum for a couple is £6,000. You can also escape IHT by giving £250 to any number of people every year, but you cannot combine it with the above exemption.

Parents can give £5,000 to each of their children as a wedding or civil partnership gift. Grandparents can give £2,500 and anyone else £1,000. Gifts of any size to political parties or charities are also exempt. If a gift is regular, comes out of income and does not affect your standard of living, any amount of money can be given away and ignored for IHT.

It is possible to make further tax-free gifts known as potentially exempt transfers (PETs), but you have to survive for seven years after making the gift. If you die within seven years and the gifts are valued at more than the nil-rate band threshold, you apply taper relief. The tax reduces on a sliding scale if the gift was made between three and seven years earlier.

You can give away most assets, including cash and shares. However, it has to be an outright gift from which you can no longer benefit. This excludes giving away your family home. If you hand it to your children and continue to live there, you have to pay a market rent, which can wipe out the tax benefits. Always make a note of such gifts to pass on to the executor of your will.

Loan trusts are designed for people who cannot give away assets because they need to live off the income but want future investment growth to be IHT-free.

You make a payment to a trust, which is treated as an interest-free loan to the trustees. The trust then repays your loan capital in instalments, giving you an income. When you die, any outstanding loan forms part of your estate, but all investment growth is free from tax.

If you want to give away assets, and need to draw an income but do not think you will need the capital, you could consider discounted gift trusts. You make a gift into a single-premium insurance bond for your children, fixing how much income you will draw until your death. If you survive for seven years, the bond does not count as part of your estate.

Some investments offer tax benefits. Most shares listed on the Alternative Investment Market (AIM) become free from IHT once you have held them for two years. This is because they qualify for business property relief. There are risks, as AIM stocks can be extremely volatile, but the value of your portfolio would have to fall by 40 per cent or more before you would lose the IHT benefits.

Money invested in a commercial forest or actively farmed land also becomes free of IHT after you have owned it for two years. Commercial woodland is defined as property where timber from the forest will be actively marketed and sold.

If at any time you are unsure about how much risk you are prepared to take and what approach is appropriate for your particular situation, you should speak to us to receive professional advice.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

“Many families do not start thinking about IHT planning until it is too late, so the first thing to do is to work out if the tax will be an issue.”

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PENSIONS REFORM

YOUR PENSION QUESTIONS ANSWERED

Q: I am due to reach State Pension Age before 6 April 2010. Will the changes affect how much State Pension I receive?

A: If you are already in receipt of State Pension, or are due to reach State Pension age before 6 April 2010, you will not be affected by the changes to the way State Pensions are calculated. You will be entitled to claim State Pension under the current system from age 65 for men, and age 60 for women. Earnings uprating of basic State Pension will be introduced for all pensioners from 2012 at the earliest.

Q: I reach State Pension age before 6 April 2010 but will my State Pension be worked out under the new rules if I put off claiming it until after 6 April 2010?

A: No. The new rules apply only to people who reach State Pension age on or after 6 April 2010. If you put off (defer) claiming your pension, you may be able to get a higher amount or a lump sum when you claim it later.

Q: I have already reached State Pension age. Will I be affected by Personal Accounts?

A: If you are over State Pension age but under age 75 and working and want to save, then you can ask your employer to enrol you into a scheme. If you chose to enrol, you will also get a pension contribution from your employer.

Q: I am a woman and will be 60 before 6 April 2010. Will I still be able to claim my State Pension when I am 60?

A: Yes. As you will be 60 before 6 April 2010, you will still be able to claim your State Pension from age 60.

Q: I heard that I can't get any basic State Pension unless I have at least 25 per cent of the contributions needed for the full amount because I will be reaching State Pension age before 6 April 2010. Is this correct?

A: Yes. If you reach State Pension age before 6 April 2010 your State Pension will be worked out according to the current rules.

Q: I am currently getting an Adult Dependency Increase (ADI). Will this stop on 6 April 2010?

A: If you are already getting an ADI when the rules change on 6 April 2010, you will be able to keep it for a time under transitional rules. It will stop when the qualifying conditions are no longer satisfied (for example, because the person you are getting the ADI for starts to get their own State Pension) or, at the latest, in 2020.

Q: I am married and currently getting an Adult Dependency Increase (ADI). Will I be worse off when ADIs stop altogether in 2020?

A: Around three quarters of the ADIs in payment in April 2010 will have stopped before 2020, for example, because the person

the ADI is for starts to get their own State Pension. If this is not the case for you, you will be told about any other benefits you may be able to get when your ADI stops in 2020.

Q: I am a married woman. I'm already over State Pension age but haven't paid enough contributions to get a pension. My husband doesn't intend to claim his pension until he's 70. When can I claim a pension using his contributions?

A: At the moment you can't claim your pension until he claims his, but the rules are changing from 6 April 2010. If he's 65 (State Pension age) before then, you can claim your pension from 6 April 2010. If he's 65 on or after 6 April 2010, you can claim when he reaches his State Pension age regardless of whether he chooses to claim his State Pension or not.

Q: Why won't my pension be uprated in line with earnings until 2012 at the earliest?

A: The change is timed to coincide with other economic factors associated with the overall package of Pensions Reform. However, if you are on a low income you may be able to get Pension Credit. The standard minimum guarantee in Pension Credit is already uprated in line with earnings and this will continue.

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OPEN MARKET OPTIONS

SPEEDING UP THE TIME OF PAYMENTS MADE TO PENSIONERS

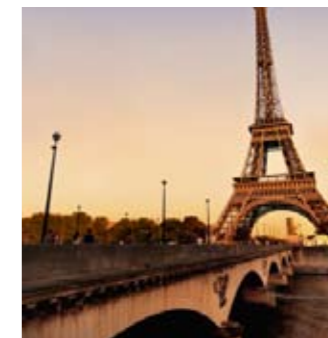
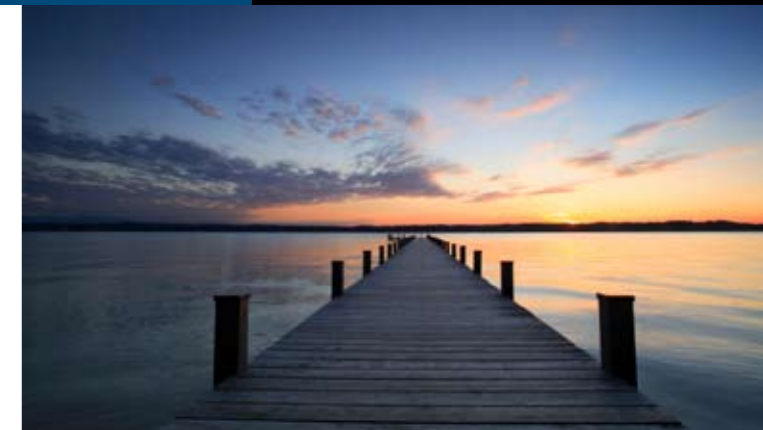
The ABI (Association of British Insurers) announced on 23 October details of its work with the UK's leading annuity providers to speed up the time it takes for Open Market Option payments to be made to pensioners.

Fifteen providers, representing over 90 per cent of the annuities industry, have been involved in the initiative, which concerns the creation of an electronic information exchange developed by Origo, the financial services e-commerce standards body. The objective of the service is to reduce the time taken to set up an annuity when changing providers and will become the industry benchmark.

The ABI's Director of Life and Savings, said, 'This initiative marks a step change in the industry's work to improve customer service around the Open Market Option. The ABI and the annuity providers involved are determined to make the annuity set-up process work better, and this service will reduce the time taken to transfer between providers.'

'The ABI has already published new template wording for "wake up" letters sent to people who are approaching retirement. This will help make the options customers have at retirement clear and easy to understand. The Open Market Option is prominently featured and explained, alongside all the different types of annuities that are available.'

'Together, these initiatives support the work providers are doing to improve set-up times and ensure that people have the information they need to make an informed decision at retirement.'



STATE PENSION

AMENDED PENSION'S BILL BOOSTS ENTITLEMENTS

The government has amended its pensions bill to make it easier for people to boost the amount of state pension they are entitled to receive. To claim the full state pension, currently £90.70 a week, you must have built up a certain number of qualifying years during your working life. You can make up any years you may have missed, for example through child care or ill health, by making a voluntary National Insurance contribution, but the current rules say you can only make up the most recent six years of missing payments.

The government now plans to allow you to make up an additional six years from any time in your career. However, the rule will apply only to those who reach state pension age before 5 April 2015 and who have 20 qualifying years under their belts.

The state pension age is 65 for men and 60 for women who were born on or before 5 April 1950. Between 2010 and 2020 the retirement

age for women will rise to 65 too. Between 2024 and 2046 it will rise to 68 for everyone.

A qualifying year is the year in which you have earned enough to make National Insurance contributions. In the 2008/09 tax year this is £4,680 or more for employees, and £4,825 or more for the self-employed. To get any state pension at all you must have at least ten qualifying years as a man and nine as a woman.

To get a full state pension the number of years you need depends on your sex and when you plan to retire. If you reach state pension age before 5 April 2010 and you are a man, you will need 44 qualifying years to get the full state pension; if you are a woman you will need 39 years. After 5 April 2010 everyone will need to have accumulated 30 qualifying years.

Currently you can reduce the number of years you need to qualify to as few as 20 through home responsibilities protection –

this is available if you are receiving child benefit or caring for someone sick or disabled. After 2010 this is set to be replaced by NI credits.

To determine if you have to make up your qualifying years, you will need to add up how many years you have worked and paid National Insurance, and how many more you are set to do before you reach the state retirement age, and you can see if you have enough qualifying years.

If you have any doubts as to whether you have paid NI contributions for every year you have worked, you can call the National Insurance enquiry helpline on 0845 915 5996 to check your record. The Pension Service can also provide you with a state pension forecast. To make up contributions at the moment it is £420 for each qualifying year, although this will be increased to offset the cost of the change.

“The government has amended its pension's bill to make it easier for people to boost the amount of state pension they are entitled to receive.”

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FESTIVE STOCKING FILLERS

AN ALTERNATIVE GIFT FOR CHILDREN THIS CHRISTMAS

Why not make an alternative gift to your children or grandchildren this Christmas, something they'll still benefit from in future years?

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FESTIVE RETURNS OF THE YEAR

When investing for children there are numerous products to choose from, including bank accounts, National Savings & Investments, Child Trust Funds, unit trusts, individual savings accounts (ISAs) and stakeholder pensions. There are many choices to make, including whether to invest a lump sum or regular premium, the time scale, risk profile and tax considerations. Take a look at some of these festive stocking fillers.

BANK ACCOUNTS

There are a number of accounts designed for children, and because these will often be held for a relatively long time they often offer higher interest rates. Cash deposits are very low risk and would be suitable for people who are extremely risk-averse or who are not concerned about inflation.

From a tax point of view, if the interest accruing in a tax year is less than the child's personal allowance of £6,035 (2008/09), there should be no tax due. By completing an R85 form, typically available from the bank or HM Revenue & Customs, the interest will be received gross.

Care should be taken if the money is a gift from the child's parents. In this situation, any interest above £100 will be taxable for the parents. If each parent makes a separate gift, they can each use their £100 allowance, thereby allowing interest of £200 to be free of tax. Because of this, if a significant gift is to be made, it will often come from the grandparents or other relative as the £100 rule would not apply.

THE NATIONAL SAVINGS & INVESTMENTS CHILDREN'S BONUS BOND

You can invest between £25 and £3,000 tax-free for children under the age of 16 and the interest is fixed for five years. The Children's Bonus Bond issue 31 pays a guaranteed compound rate over 5 years, including the 5th anniversary bonus, of 3.70 per cent AER tax-free. Tax-free means the interest is exempt from UK Income Tax and Capital Gains Tax.

AER (Annual Equivalent Rate) is a notional rate that illustrates what the annual rate of interest would be if the interest were compounded each time it was paid. Where interest is paid annually, the quoted rate and the AER are the same.

CHILD TRUST FUND

Every child born after 1 September 2002 and receiving child benefit is eligible. The Child Trust Fund account is a savings and investment account for children. The account will belong to the child and cannot be touched until they are 18. Money cannot be taken out of the Child Trust Fund account once it has been put in.

Neither you nor your child will pay tax on income or gains in the account (provided that you are UK residents) and a maximum of £1,200 a year can

“When investing for children there are numerous products to choose from, including bank accounts, National Savings & Investments, Child Trust Funds, unit trusts, individual savings accounts (ISAs) and stakeholder pensions.”

be saved in the account by you, family or friends. Each contribution year starts on the child's birthday and ends the day before their birthday.

Parents receive a £250 or £500 voucher to start an account and the government will make a further contribution when the child is seven. This top-up payment will be £250, or £500 for children in lower-income families. These payments will be paid direct into the child's account.

There are two types of account, stakeholder and non-stakeholder. Broadly speaking, the stakeholder option caps the annual charges at 1.5 per cent of the account's value but imposes certain investment restrictions. The non-stakeholder is more flexible but can levy higher charges.

UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES (OEIC)

These are collective investments that pool investors' money to allow a wider investment spread: in stocks and shares, bonds or other investments. Economies of scale mean that the cost of running a collective investment may be less than that for an individual portfolio. In general, even in these current turbulent economic times, shares should outperform cash deposits and inflation over the medium to long term.

Investment trusts perform a similar function to unit trusts and some have special savings schemes for children. If the investment is for a short period, a lower-risk deposit-based investment would probably be more suitable.

Children have their own tax allowances, the same as adults. It is possible, therefore, to use the child's income tax allowance (currently £6,035) and capital gains tax allowance (£9,600).

BARE TRUSTS

Because children are not allowed to hold investments, they are often wrapped in a trust. The simplest form of trust is a bare trust, with the investment held by an adult, usually a parent or grandparent, on behalf of the child.

However, apart from being the named holder (nominee), the parent has no beneficial right to the investment and must exercise control for the benefit of or on the instruction of the child. The income arising on the investment is taxed

as part of the child's taxable income and any capital gains as part of the child's capital gains.

From a practical point of view the bare trust is extremely easy to administer because there is no trust document. The investment is made in the parent's name and the existence of the trust is denoted by having the child's initials in brackets. There is no additional cost in placing the investment in a bare trust.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

ISAs have proved to be very popular because of the tax benefits. The proceeds from cash and corporate bonds held within an ISA are tax-free. Dividends from shares within an ISA will have 10 per cent tax deducted, but there is no liability to higher-rate income tax and any capital gains are free from capital gains tax.

ISAs cannot be owned by children. However, many parents invest in ISAs in their own names but earmark the investment for their children. This flexibility may be useful as it does not tie in the parents, unlike unit trusts in a bare trust.

STAKEHOLDER PENSIONS

Stakeholder pensions were introduced by the government as a flexible, low-cost, tax-efficient way of providing income in retirement. They also allowed for contributions of up to £3,600 a year to be made on behalf of someone else, including children. As the contributions attract tax relief at the basic rate, an investment of £3,600 would cost only £2,880.

This facility therefore allows for parents and grandparents to start a pension very early in a child's life. Even modest contributions can grow to a meaningful sum over a 50-year period. Stakeholder pensions can therefore offer a useful way of boosting a child's pension. The only downside is that the child cannot touch the money until he or she is 55.

If at any time you are unsure about how much risk you are prepared to take, you should speak to us to receive professional advice.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investment can go down as well as up and you may not get back the full amount invested.



PROTECTING THE UNEXPECTED

PEACE OF MIND WHEN YOU NEED IT MOST

If you are diagnosed as having one of the specific life-threatening conditions defined in your policy, critical illness insurance pays out a tax-free lump sum, giving you peace of mind when you need it most. When you suffer from a critical illness it can seriously affect you financially and the last thing you need is to face not being able to pay bills or make mortgage payments.

Some policies also offer both life and critical illness cover. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first. Although not all policies cover all critical conditions, industry guidelines say that to call itself critical illness insurance a policy must offer cover for cancer – but only advanced cases; heart attack – if sufficiently severe; and stroke – if it results in permanent symptoms.

A basic plan will typically also cover kidney failure, major organ transplants, multiple sclerosis and coronary bypass surgery. More serious conditions are covered in more comprehensive policies, and many also include loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of a limb.

A policy will provide cover only for conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe.

Similarly, some conditions will not be covered if you suffer from them after reaching a certain age, for

example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy and most pay out only after a 'survival period' of typically 28 days.

Because policies vary widely in the cover they offer, you should obtain professional independent advice to ensure that you obtain a critical illness policy that is appropriate for your particular needs. An adviser will also be able to help you decide how much cover you need, how long the policy should last and whether you should combine critical illness and life cover.

How much you pay for critical illness cover will depend on a range of factors, including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

With so many different insurance policies available, it can be difficult to know which ones will best protect your family from financial hardship. To discuss your situation, please contact us.

“Some policies also offer both life and critical illness cover. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.”

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ENTERPRISE INVESTMENT SCHEMES

HELPING SMALLER TRADING COMPANIES BRINGS INVESTOR RELIEF

The Enterprise Investment Scheme (EIS) is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.

All shares must be paid up in full, in cash, when they are issued. They must be 'full-risk' ordinary shares, with no preferential rights to dividends, or to the company's assets in the event of a winding up. There must also be no arrangements to protect the investor from the normal risks associated with investing in shares, and no arrangements for the shares to be purchased by anyone else after the end of the relevant period.

The tax benefits of an EIS are only available when new shares are bought. If the existing shares of an EIS eligible company are bought on the secondary market, then none of the tax benefits are available via the EIS.

Provided an EIS qualifying investment is held for no less than three years, an individual can reduce their income tax liability by an amount equal to 20 per cent of the amount invested. The minimum subscription is £500 per company and the maximum per

investor is £500,000 per annum. Where an individual subscribes for qualifying shares before 6 October in a tax year, a claim may be made to carry back one half of the amount subscribed to the previous tax year, subject to a maximum of £50,000.

Tax on gains realised on a different asset can be deferred indefinitely, where disposal of that asset was less than 36 months before the EIS investment or less than 12 months after it. Deferral relief is unlimited, in other words, this relief is not limited to investments of £500,000 per annum.

No Capital Gains Tax is payable on the disposal of shares after three years provided the EIS initial income tax relief was given and not withdrawn on those shares. If EIS shares are disposed of at any time at a loss (after taking into account income tax relief), such loss can be offset against the investor's capital gains or income in the year of disposal

or the previous year. For gains offset against income tax, the net effect is to limit the investment exposure to 48p in the £1 for a 40 per cent tax payer if the investor realises a total loss.

Alternatively, the losses can be offset against Capital Gains Tax at the prevailing rate, which is 18 per cent in the current tax year. In addition, EIS Investments are generally exempt from Inheritance Tax after two years of holding such investment.

If at any time you are unsure about how much risk you are prepared to take and what approach is appropriate for your particular situation, you should speak to us to receive professional advice.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investment can go down as well as up and you may not get back the full amount invested.

“The Enterprise Investment Scheme (EIS) is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.”

FINANCIAL SERVICES COMPENSATION SCHEME



GUARANTEES FOR SAVERS DEPOSITS

From 7 October 2008, if you have a savings or current account with a UK-based institution, up to £50,000 of your cash is protected through the Financial Services Compensation Scheme (FSCS).

If the institution collapses, you will be entitled to claim back 100 per cent of your money up to that limit. Savers are covered for that sum in each organisation they bank with, unless any of them share a banking licence. If, for example, you have money with Barclays and HSBC, which don't share a licence, you will have up to £50,000 protected in each bank.

However, if you have money with HSBC and First Direct, which do share a licence, only the first £50,000 of your total will be protected. The protection is for each account holder, so in a joint account up to £100,000 will be covered.

If you have more than £50,000 in an account, the first £50,000 will be 100 per cent secure and you will be able to reclaim it in the same way as someone who holds less than the new limit. You may be able to recover some of your other money, but only after the bank has been liquidated. The Financial Services Authority (FSA) is looking at how this process can be made easier.

If a bank or building society falls into difficulty, the FSCS will obtain a list of customers from the administrators and if you are on it you will be sent a form to apply for compensation. You must fill this in and send it back to get

your claim processed.

In a consultation document published earlier this year the government proposed making it easier for the FSCS to settle claims so that all savers can be compensated within a week. No final decision has been made on these changes.

If you have money deposited in Icesave, the Icelandic internet bank, the Icelandic government has taken over and the Icelandic deposit protection scheme will cover the first €0,887 (£16,264) of savings. If your account has a balance higher than this, the remainder will be covered by the UK's FSCS up to a maximum of £50,000.

In addition, UK savers with Ireland's six biggest banks, including those with Post Office savings accounts, will have 100 per cent of their deposits protected under the guarantee announced by the Irish government.

If you have your mortgage and savings with the same bank, your deposits are offset against your outstanding borrowing and you only get back anything that is left after this has been done. So if you hold £30,000 in a savings account and have an outstanding mortgage of £200,000 when your bank fails, instead of getting

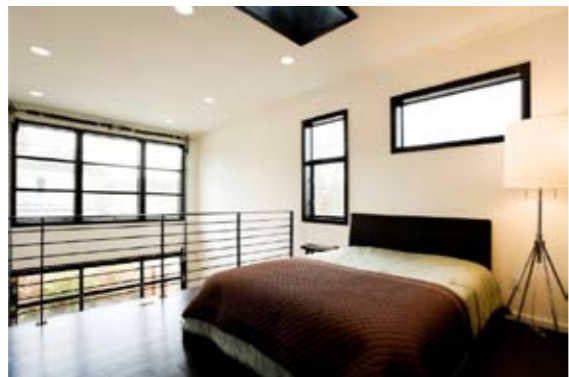
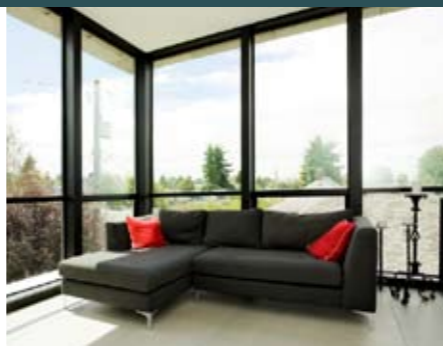
any money back you would see your mortgage debt reduced to £170,000. The FSA is in the process of consulting on whether your mortgage and savings should be dealt with separately.

“If you have your mortgage and savings with the same bank, your deposits are offset against your outstanding borrowing and you only get back anything that is left after this has been done.”

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COMING TO THE END OF YOUR CURRENT MORTGAGE DEAL?

LACK OF FUNDING IN WHOLESALE MARKETS HAS LED TO A DRAMATIC REDUCTION IN THE MORTGAGES AVAILABLE

If you are coming to the end of your current mortgage deal, you will need to ensure that you find another mortgage quickly in a market that has seen unprecedented house price falls and a severe lack of schemes available. The government's bail-out of the banking system in October should bring more confidence to many mortgage providers and encourage them start increasing their lending levels to the volumes seen during the latter part of 2007.

Initially, your first port of call should be to speak to your current lender and ask what they can offer you not to switch. Also, discuss your options with a mortgage broker who will be able to advise you about the options currently available across the whole of the market.

The lack of funding in wholesale markets has led to a dramatic reduction in the mortgages available. The best rates are usually reserved for borrowers with at least 25 per cent equity in their property. To qualify for the best deals try to overpay each month or use any extra cash to clear a lump sum from your debt. However, always check with your lender first because some may levy a charge or impose a limit on the amount that you can pay each month.

In the current financial climate, banks and building societies are increasingly nervous about lending to customers who have an imperfect credit history. Even a missed mobile phone payment can weigh heavily on the mind of your lender when considering you for a loan.

You can obtain a copy of your credit report from one of three credit reference agencies – Experian, Equifax or CallCredit. It's important to update your details and

correct any information that is wrong, also close down any unnecessary accounts to improve your overall credit score. Make sure that you are on the electoral roll and your address details are up to date.

The fees charged by lenders can add thousands of pounds to the cost of your loan and the best rates carry the heaviest fees, so it is important to look at the total cost of the deals that you are considering. Don't forget to add any other costs, including legal fees, when calculating the cost of remortgaging.

Lenders are pulling offers and revising rates very quickly, so if you find a good deal, don't delay otherwise you could miss out. It's worth remembering that lenders will allow you to book into a new deal up to six months before your remortgage deadline. Booking in advance will ensure that you will avoid having to suffer a period on your lender's standard variable rate, which is likely to be much higher than the rate on your current deal.

Your home may be repossessed if you do not keep up repayments on your mortgage.

MORTGAGE APPROVALS

57 PER CENT LOWER THAN A YEAR AGO

The number of mortgages approved for house purchases rose slightly during September but was still 57 per cent lower than a year ago, the British Bankers' Association (BBA) said on 23 October.

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Seasonally adjusted figures show 23,422 loans were approved for purchases during the month, compared with 53,694 in the same period last year.

The 10 per cent increase between August and September only brings the figure back from a record low of 21,342. The number of loans approved for remortgage customers also rose slightly from 47,260 in August to 51,523 in September.

Net mortgage lending, which strips out redemptions and repayments, rose to £3.6bn in September from just £2.1bn in August, the lowest figure since February 2001. However, it was still below the previous six-month average of £4.1bn and well down on last September's figure of £6.4bn.

The BBA said it was no surprise that lending levels remained low in September, despite the government's moves to kick-start the housing market by raising the stamp duty threshold to £175,000.

The BBA's statistics director said, 'Compared to a year ago, the mortgage environment has changed significantly, with supply restricted as a consequence of the situation in financial markets and demand at a much reduced level. In a mortgage market that is becoming more concentrated, the high-street banks now provide more than two-thirds of all new lending.'

The figures cover the month before the government made moves to bail out the British financial system by cutting interest rates and part-nationalising some of the country's biggest banks.

Although existing borrowers on tracker mortgages will feel the benefit of the rate cut as lenders pass it on in November's payments, new borrowers are continuing to be squeezed. Some lenders have also pulled deals and not replaced them as they wait for interbank borrowing rates to fall.

Your home may be repossessed if you do not keep up repayments on your mortgage.

NEW RULES AIMED AT REDUCING REPOSSESSIONS

HELP FOR STRUGGLING HOMEOWNERS

Under new rules brought in by the government on 22 October aimed at reducing repossessions, mortgage lenders will have to prove they have tried to help struggling homeowners avoid losing their property.

As the credit crisis spreads from the financial sector into the rest of the economy, Britain is expected to enter its first recession since the early 1990s.

The housing market is already slumping fast and English and Welsh courts ordered more home repossessions in the second quarter of this year than at any time since 1992.

Lenders seeking a repossession court order under the new rules will be expected to show they have tried to find alternatives when borrowers get into trouble with their mortgage repayments, the Treasury said.

'We need to make sure we help those who might be hardest hit in the tougher times ahead, ensuring repossession is the last resort not the first,' said Chief Secretary to the Treasury, Yvette Cooper.

'We also want to make sure that vulnerable homeowners are protected from exploitation and dodgy deals.'

The government also wants the Financial Services Authority to regulate firms that buy property cheaply from those struggling to keep up with their mortgages and then rent it back.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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PERSONAL FINANCE

A QUICK GUIDE TO THE JARGON OF FINANCIAL PLANNING

ABI

Acronym for the Association of British Insurers, a regulatory body for the UK insurance industry.

A-DAY

6 April 2006. The effective date of pension's simplification, when HM Revenue & Customs introduced a single tax regime for all UK pension schemes.

ACCRUED INCOME

Certain stocks, shares, securities are subject to an arrangement whereby on their sale (before the ex dividend date), the interest accrued between the date of the last interest payment and the date of sale is regarded for income tax purposes as the income of the seller. The buyer can deduct this sum from taxable income.

ACCUMULATION AND MAINTENANCE TRUST

A trust in which the beneficiaries will become entitled to the property or at least the income when they reach a certain age. This must not be more than age 25. The trustees can use the income for the maintenance of the beneficiary before the date that the beneficiary becomes entitled to the property or to an interest in possession in that property.

ACCUMULATION SHARES/UNITS

Shares/units that are issued by companies to existing share/unit holders instead of dividends. They are treated as taxable income but the taxable amount adds to the basic cost of the shares, reducing possible capital gains tax when sold.

AIM

Acronym for the Alternative Investment Market which is a stock market 'alternative' to the London Stock Exchange. It lists companies that are not quoted on the Stock Exchange because they are too small or do not comply with the enormous amount of regulation required for such a listing.

ALTERNATIVELY SECURED PENSION (ASP)

Allows a pension scheme member to defer purchasing an annuity at

age 75. A defined level of income can be drawn on the invested funds until the member decides to purchase an annuity or dies.

ANNUITY

A lump sum investment to purchase a periodic amount paid by a life office, usually for life. Predominately used by people as a pension income in retirement.

APR

Acronym for Annual Percentage Rate. This comprises the interest rate charged on a loan or credit card plus any other charges such as an arrangement fee or the annual credit card fee. It is calculated to a standard formula intended to give you the true cost of borrowing calculated over a year.

Authorised share capital
The amount of share capital that a company is permitted to issue by its Articles of Association (a company's constitution or rules). The Articles can be varied from time to time if the company wants to vary the authorised share capital.

AVCS

Acronym for Additional Voluntary Contributions. These are "top up" pension contributions in respect of an occupational pension scheme.

BARE TRUST

A type of trust where the beneficiary(ies) has an absolute interest and the sole duty of the trustee is to hold the property for the beneficiary and transfer it to him or her when required.

BASE RATE

The rate of interest set by the Bank of England. Sometimes lenders call their own standard variable rate their base rate or basic rate.

BEAR MARKET

A phrase used to describe a stock market when share prices are falling or are expected to fall.

BID PRICE

The price at which the holder of units can sell their units from a collective scheme such as a unit trust.

BID/OFFER SPREAD

The difference between the bid price (the price at which units are sold) and the offer price (the price at which units are bought).

BOND

A term to cover many types of lump sum investments. Life companies can issue a bond where the underlying investment can be with profits, unit linked or guaranteed. May also refer to fixed interest stocks issued by companies or the government.

BULL MARKET

A phrase used to describe the stock market when share prices are rising and investors are optimistic that the trend will continue.

CAPITAL ALLOWANCE

Also called a "writing down allowance"; this is an amount of money a company or the self employed can set against tax each year representing the depreciation of a capital asset used in a trade or profession.

CGT

Acronym for Capital Gains Tax, which taxes the chargeable gains an individual makes on the disposal of assets (compared to the cost paid for that asset and an allowance for inflation). Many assets are specifically exempted from CGT.

CLOSED-END FUND

An investment vehicle, usually an investment trust, whose shares are quoted on the Stock Exchange and which issues a fixed amount of shares to investors.

CONVERTIBLE ASSURANCE

A type of term assurance which can be converted to a whole of life policy or to an endowment policy on payment of an increased premium. Further evidence of good health is not required at conversion.

CONVERTIBLE BOND

A bond which can be exchanged for shares of a company at a later date.

CRITICAL ILLNESS INSURANCE

An insurance policy that pays a lump sum on diagnosis of the life

assured having a specified critical illness that is covered by the policy conditions.

DECREASING TERM ASSURANCE

An insurance policy from which a lump sum is paid if the life assured dies within an agreed term. This amount reduces during the term of the policy. Often used to protect repayment mortgages.

DEFINED BENEFIT SCHEME

See Final Salary Scheme.

DEFINED CONTRIBUTION SCHEME

See Money Purchase Scheme

EARNINGS

The profits of a company available to shareholders, which is what is left after deducting tax and other items.

EARNINGS PER SHARE

A figure arrived at by dividing the earnings of a company by the number of shares issued.

EMPLOYER'S PENSION SCHEME

See Occupational Pension Scheme.

ENDOWMENT POLICY

A life policy which pays out on maturity or earlier death. Premiums are paid for a fixed number of years.

ENTERPRISE INVESTMENT SCHEME (EIS)

A scheme to encourage people to invest in small unquoted businesses which by nature are high risk. There is favourable tax treatment for people willing to invest.

EQUITIES

Another name for ordinary shares which represent ownership in a company.

EXECUTIVE PENSION PLAN (EPP)

Also known as EPP. This is an employer's pension's scheme offered by insurance companies which covers a few senior employees.

FINAL SALARY SCHEME

Also known as a Defined Benefit Scheme. A type of employer's pension scheme that provides a pension based on a proportion of your earnings at or near to retirement, also the length of time you have worked for the company. Financial Services Authority The lead regulator for the UK financial service industry.

FSAVCS

Acronym for Free-Standing Additional Voluntary Contributions, these are "top-up" contributions for members of an occupational/ employer's pension scheme, paid into a "free-standing" AVC contract from a pension provider. These are paid net but the contribution to the scheme is grossed up at the basic rate of tax. Higher rate tax payers can claim additional tax relief.

GEARING

Gearing is the ratio of a company's debt, or fixed-interest loan stock, to its ordinary share capital. A highly geared company is one which has a lot of debt on its balance sheet.

GILTS

Also known as British Government Stocks. Gilts are issued to help fund government spending. Most are stocks issued with a fixed interest rate, which is paid half-yearly. At the end of the period of the investment, the government redeems the stock at the known published amount unless the gilt is irredeemable.

GPP

Acronym for Group Personal Pension, which is a collection of personal pensions, usually organised through an employer. Guaranteed Income Bond
A lower-risk investment, which you buy with a lump sum. It guarantees a fixed level of income, which is paid over the term of the investment annually or monthly. Usually with a return of the capital at the end of the investment.

HOME INCOME PLAN (HIP)

A plan designed to enable an elderly owner or owners of a property to free the capital value locked in the bricks and mortar by providing an

income whilst still allowing them to live there until death.

INDEX-LINKED

If an investment, a pension, an annuity etc. is index-linked, it is "linked" to rises in the general level of prices so that it keeps pace with inflation. It is usually linked to the Retail Prices Index.

INVESTMENT TRUST

A type of collective investment where the investor's money is pooled with that of other investors and invested in a professionally managed portfolio of stocks and shares. An investment trust is a publicly quoted company. Investors buy shares in that company and the investment trust's fund managers invest in other stocks and shares.

ISA

Acronym for Individual Savings Account, a tax efficient savings wrapper that can hold a range of different investments. Maxi and mini ISAs have been abolished. Existing mini cash, tessa-only ISAs and the cash component of maxi ISAs have been re-classified as cash ISAs. In the same way, mini stocks and shares ISAs and the stocks and shares component of maxi ISAs have been re-classified as stocks and shares ISAs. Personal equity plans (PEPs) have also become re-classified as stocks and shares ISAs.

ISSUED SHARE CAPITAL

This is the amount of a company's authorised share capital that is issued as shares to shareholders.

LOADING

The extent to which an individual is charged more than the 'standard' or 'average' rate for their insurance. This can be due to a bad claims history, age, occupation and sometimes even gender.

LIFETIME ALLOWANCE (LA)

The maximum value of fund a pension scheme member can accumulate without incurring a tax charge.

LTV

Acronym for Loan to Valuation. It the size of the mortgage as a percentage of the property value.

LUMP SUM

Any amount invested as a single payment.

MONEY PURCHASE SCHEME

Also known as a Defined Contribution Scheme. This is a type of pension scheme that invests your (and/or your employer's) contributions to produce a lump sum to buy a pension income when you retire. The benefit is not defined.

NATIONAL INSURANCE

A form of state insurance which pays for health care, pensions, and other state benefits. National Insurance contributions (NICs) are paid by employers, employees and the self-employed.

NATIONAL SAVINGS

A variety of savings schemes backed by the government in which the public can participate. These schemes are therefore lower risk. They include premium, capital and income bonds and some are tax free.

NAV

Acronym for Net Asset Value, which is the total assets of a company or fund, less its liabilities and other charges.

NEGATIVE EQUITY

A term usually used in respect of home ownership, but applicable to any asset currently worth less than the sum of money borrowed originally to buy it.

NET RELEVANT EARNINGS

Relevant earnings before deduction of personal allowances but after deduction of items such as capital allowances, allowable expenses and losses.

OCCUPATIONAL PENSION SCHEME

This is a pension scheme set up by an employer to provide pension benefits for employees when they retire. They can either be set up on a Final Salary or Money Purchase basis.

OEIC

Acronym for Open Ended Investment Companies which are collective investment schemes.

OFFER PRICE

The price at which units are purchased in a collective scheme (e.g. Unit trust)

OPEN-ENDED FUND

A unit trust or OEIC in which the fund managers may change the investments in the trust without notifying the unit-holders.

OPEN MARKET OPTION (OMO)

A provision of defined contribution schemes allowing members to transfer funds at retirement to draw an immediate annuity with another provider.

OPTIONS

An option is a right to buy, or to sell a security, commodity or currency at a future time and price. You do not have to buy or sell, only if the agreed price produces a profit by being greater than the current market price. If the option is not exercised, it just lapses and the loss will be the original cost of the option.

ORDINARY SHARES

Another name for equities or shares which represent ownership in a company.

PAID UP

A term used to describe a pension or life assurance policy when the policyholder has stopped paying premiums before retirement or before the end of the term of the policy. Any underlying value may still be used to maintain benefits.

PAYE

Acronym for Pay As You Earn. It is a means of collecting income tax at source under Schedule E of the tax legislation. Employers have to collect the tax by deducting it from their employees' wages and pay it to HM Revenue & Customs.

PE RATIO

Acronym for Price Earnings ratio. Generally expressed as one number, which is arrived at by dividing the current market price of a share by the "earnings" per share. Earnings are the profits (usually calculated annually) of the company, after allowing for tax and other items. This figure is viewed as a reliable guide as to

whether a share price is high or low, compared with the market price.

PENNY SHARES

These are shares which trade at a low price and are generally high risk.

PERSONAL ALLOWANCE

Individual taxpayers are entitled to a personal allowance which is an amount deductible from their income which they can earn free of income tax.

PERSONAL PENSION PLAN (PPP)

A type of defined contribution scheme. Provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions.

PERMANENT HEALTH INSURANCE (PHI)

Also known as Income Protection Cover. This policy provides an income if you are unable to work because of long term illness or accident.

PIBS

Acronym for Permanent Interest Bearing shares which are issued by building societies and pay income only. The capital is not repaid.

POUND COST AVERAGING

A means of averaging the cost of buying shares or units to avoid the ups and downs of the market. It involves paying for shares or units by fixed periodic, often monthly instalments. When the price is high, the monthly amount buys fewer shares or units, when prices are low, the amount buys more.

PPP

Acronym for Personal Pension Plan.

PREFERENCE SHARES

These are shares that are considered to be less risky than ordinary shares as they have a fixed return. In the event of the company (to which the shares relate) is wound up, preference shareholders rank above the claims of ordinary shareholders (but behind bank and trade creditors). Preference shares do not usually carry a vote unless dividends fall into arrears.

PRIMARY MARKET

Where securities, such as shares, are sold for the first time, as opposed to the secondary market where the securities already exist and are bought and sold by investors.

QUOTED

A company listed on the Stock Exchange is a quoted company. It must meet strict requirements as to the value of the company and publication of financial information.

REDEEMABLE SHARES

Shares that are issued with the right reserved by the company to redeem them - sometimes on a fixed date, otherwise on a date to be fixed.

REDEMPTION YIELD

This is the current interest on or income from a stock/security/other investment with an adjustment for the capital gain/loss if the investment is held to redemption.

RENEWABLE ASSURANCE

Renewable assurance policies offer the facility to renew at the end of the term without the need to produce further evidence of good health.

REVERSIONARY BONUS

An annual bonus, which reflects the underlying growth of investments in a with-profits assurance policy which is added to the sum payable on maturity or death. Once added the bonus cannot be taken away.

RIGHTS ISSUE

The issue of new shares in accordance with existing shareholders' rights of first refusal of the shares (pre-emption rights) in proportion to their existing holdings. A rights issue is a means of raising money for the company.

RPI

Retail Prices Index, used as a barometer of the cost of living.

SCRIP DIVIDEND

A dividend paid by way of shares instead of cash.

SCRIP ISSUE

The issue of free shares to existing shareholders, in proportion to their existing shareholding. The effect is

to convert cash from the company's resources into issued share capital and reduce the price of the shares.

SECONDARY MARKET

A market where securities are sold for the second time. For example the securities already exist, having been sold by the organisation which created the security at the primary market.

SELF-INVESTED PENSION PLAN (SIPP)

A type of personal pension plan that gives an individual more investment control.

SHARES

Another name for equities which represent ownership in a company. Different types of shares confer different entitlements, such as voting rights and payments from the profits of the company. By trading shares you can make a capital gain or loss, depending on the differences in the prices at which you buy or sell. The holders of shares have a right to vote at the company's Annual General Meeting, and an entitlement to a share of dividends declared.

SMALL SELF-ADMINISTERED SCHEME (SSAS)

An occupational pension scheme, usually for small businesses, that gives members more investment control.

SPREAD

The difference between the bid or buying price for shares/units and the offer price for selling them.

STAKEHOLDER PENSION (SHP)

A form of private pension vehicle made available from April 2001. Known as Stakeholder pensions, these schemes are offer a low-cost straightforward method of funding for retirement.

STAMP DUTY

A tax charged on the purchase of property or shares.

STOCK

Part of a debt of a government body or company, sold by way of a security for deposit of a lump sum, which yields fixed interest on

the amount invested and return of the capital at the end of the term of the investment. Often called "gilts" or "gilt-edged securities" if government stock or "corporate bonds" if company stock.

TAX RELIEF

The process by which HM Revenue & Customs refunds you tax already paid on money committed to a pension or other government-approved scheme.

TERM ASSURANCE

A type of life cover which guarantees an agreed sum of money if the life covered dies before the end of the term of the policy. The policy only pays out if you die before the end of its pre-set term.

TERMINAL BONUS

A sum of money (not guaranteed) given to policyholders at the end of the term of their with-profits investment such as a bond or endowment, reflecting the growth of the with-profits fund.

UNIT TRUST

A collective investment where a unit trust manager puts an investor's money, together with that of others, into a fund of shares or securities of a specific type which is then professionally managed. The nature of the unit trust is determined by a trust deed and the fund itself is held separately by an independent trustee.

UNIT-LINKED

An investment where units of shares or other asset types are purchased through a life assurance or pension policy. The value of the units, which can go down as well as up, depends upon the performance of the underlying assets.

VENTURE CAPITAL TRUST (VCT)

Investment in small companies that are not quoted on the Stock Exchange. Generally regarded as higher-risk holdings. They offer beneficial tax treatment, including income tax relief and CGT relief.

WAIVER OF PREMIUM

A benefit offered by insurance companies. It means that if you are ill or have an accident over the long term, the product waives your premiums, i.e. pays them for you.

WARRANT

The right to buy shares in a company at a fixed time and usually at a fixed price. As with options, there is no obligation to buy.

WEIGHTINGS

A term used to indicate the percentage of stocks and shares invested in holdings such as pension funds, and unit trusts.

WHOLE OF LIFE POLICY

An insurance policy which pays an agreed sum of money when the life assured dies. The protection lasts for the whole of your life.

WITH-PROFITS

This type of policy means that you receive a share of any profits which the life assurance company makes on its with-profits fund (a mixture of shares/property/cash etc.). At the end of the term, a terminal bonus may be paid. If annual or reversionary bonuses are added they can not be taken away.

YIELD

The annual income earned from an investment, measured against its current market price, always expressed as a percentage.

ZERO

Zero is short for Zero Coupon Bonds. As the name implies, zeros pays no interest, so there is nil income tax to pay whilst they are held. The investment "rolls up"; i.e. the interest is included in the capital amount received on transfer or redemption, which is liable to income tax at that time. Zero Dividend Preference shares have similar advantages.

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INCOME TAX RATES AND ALLOWANCES

INCOME TAX ALLOWANCES

Type of allowance	Earnings for 2008/09
Personal allowance	£6,035
Personal allowance (aged 65-74) (1)	£9,030
Personal allowance (aged 75 and over) (1)	£9,180
Income limited for age-related allowances	£21,800
Married couple's allowance for people born before 6 April 1935 (1) (2)	£6,535
Married couple's allowance - aged 75 or over (1) (2)	£6,625
Income limit for age-related allowances	£21,800
Minimum amount of married couple's allowance	£2,540
Blind person's allowance	£1,800

(1) - These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic Personal allowance or minimum amount of Married Couple's allowance.

(2) - Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

TAX RATES AND BANDS FOR THE TAX YEAR 2008/09

Tax rate	Tax band
Basic rate: 20 per cent	£0-£34,800
Higher rate: 40 per cent	Over £34,800

From 2008/09, there is a 10 per cent starting rate for savings income only, with a limit of £2,320. If an individual's taxable non-savings income is above this limit then the 10 per cent starting rate for savings will not apply. There are no changes to the 10 per cent dividend ordinary rate or the 32.5 per cent dividend upper rate.



VOLATILE MARKETS

PENSION SCHEMES HAVE RELATIVELY LIMITED EXPOSURE

The Pensions Regulator said on 24 October that British pension schemes have a 'relatively limited exposure' to toxic assets. The Pensions Regulator also said in a statement that it has seen a 'limited involvement in derivative trades with counterparties that are in difficulty.' It urged pension trustees to check that corporate sponsors remain committed to supporting their saving vehicles.

The current volatile markets have wiped out billions of pensions assets. Accounting firm Deloitte estimated that the real pension deficit of FTSE 100 firms amounted to over £100bn pounds in the middle of October.

'It is good practice for trustees to keep the employer covenant under review,' the regulator said. The watchdog was set up in 2005 to control the pension industry and make sure schemes achieve and retain a fully funded position.

In its note it said that companies sponsoring a pension scheme involved in a recovery plan should discuss the situation with the trustees, but it added that fewer recovery plans have been filed since its new regime was implemented.

Every under-funded pension scheme in the UK is required to submit a recovery plan to highlight how the deficit will be made good.

In 2005 the regulator implemented a new funding regime where each scheme is assessed separately rather than against the general minimum funding requirement which had been in place since 1995.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investment can go down as well as up and you may not get back the full amount invested.

“Every under funded pension scheme in the UK is required to submit a recovery plan to highlight how the deficit will be made good.”

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SAVVY SAVERS

PROTECTING YOUR SAVINGS

From 7 October 2008, savings of up to £50,000 are guaranteed by the Financial Services Compensation Scheme (FSCS). But the protection applies per person, per institution (not account) that holds an individual banking licence.

All customers of authorised financial services firms in the UK are covered by the FSCS. It will pay compensation if a firm is unable, or likely to be unable, to pay claims against it – when this happens the firm falls into default. If a bank collapses and takes your savings with it, you will be able to claim compensation from the scheme.

RECLAIMING SAVINGS

If you have savings with a bank or building society that becomes insolvent, you can reclaim up to 100 per cent of the first £50,000 you hold in each provider with its own banking licence. You should check which banks and building societies share a licence.

You do not need to contact the institution yourself in order to make a claim. You will typically be required to complete a claims application form, which the FSCS will send you after the provider defaults.

The FSCS aims to process all claims within six months after a declaration of default, although it may take longer depending on the complexity of the claim or whether or not there have been any delays with the liquidator.

The FSCS normally issues a cheque for compensation, but says it will

consider other alternatives for claimants who do not have a bank or building society account.

When it comes to insurance, the FSCS will cover life insurance policies such as pensions, annuities and endowments, as well as motor, home and employers' liability insurance. For these claims you will again have to fill in an application form from the FSCS (not from your insurer) in order for it to consider your claim.

If you are making a claim against an insurance company that has gone into liquidation, the FSCS could compensate you for the premiums you have already paid (if the insurer is unable to do so) and will try and help you transfer policies or pay you compensation.

Compensation is unlimited under the scheme, but you will not get all your money back unless it is a claim for a compulsory insurance, such as third-party motor cover. The scheme covers 100 per cent of the first £2,000 you have lost, plus 90 per cent of the remainder of the claim.

If you have specific questions or concerns about the details of your insurance policy rather than anything to do with compensation, you should speak directly to the insolvency practitioners who will be responsible for the administration of the insurer and the settlement of any claims.

If you are making a claim against an investment company that has gone into liquidation, you will have to supply the FSCS with specific details about your investment, such

as its type, how much you invested and when. If your business with the company was only ever before August 1988, then the FSCS will not be able to help you.

The FSCS will usually ask you to send any documents relating to your investments which the company may have sent you.

You can contact the FSCS on 020 7892 7300 or visit www.fscs.org.uk for more information.

“ All customers of authorised financial services firms in the UK are covered by the FSCS. It will pay compensation if a firm is unable, or likely to be unable, to pay claims against it – when this happens the firm falls into default. ”