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Your independent window on financial issues

## New Year resolutions to get your finances in shape



Finances can benefit from some attention too

Many brave resolutions are made at the beginning of the year. Why not add improving your financial situation to the list? With our support and advice, it is highly likely that you will be able to reinvigorate your savings and investments. Here are a few ideas...

### Advice is essential

We're here to help. Finances can be complex, so it's essential to get expert, independent advice.

### Dealing with debt

Some debts are unavoidable, such as a mortgage. But that doesn't mean you have to stick with

your current arrangement. We can tell you if there is a better deal available or if you might benefit from overpaying with your existing lender.

### Maximise your savings

You should aim to have three to six months' salary on deposit in case of emergency. We can point you in the right direction for the best interest rates.

### Refresh your investments

If you haven't used this year's ISA allowance, we can provide guidance and sort out the paperwork. An individual's 2011-12 ISA allowance is £10,680, of which up to £5,340 can go into the cash ISA option. When the new tax year starts in April you will be able to put a total of £11,280 into 2012-13 ISAs, with the cash ISA limit within that set at £5,640.

### Review your retirement planning

Most of us don't save enough into our pension, if we save anything at all. This is a big mistake. There are tax breaks to be had, and if you arrive at retirement without a decent pension pot, you could face a bleak old age.

### Make a Will

If you die without leaving a Will, you will probably bequeath your loved ones a heap of headaches. They will have to wait for your estate to be sorted out, something that could be done swiftly and cleanly if you have left clear instructions. Will writing is not regulated by the Financial Services Authority.

### Protect yourself and your family

Do you have adequate life insurance? And is it written in trust for your loved ones? What about income protection and critical illness cover?

It is often said that those who fail to plan, plan to fail. This is where we come in: we're financial planners, and we're here to help you succeed.

## INSIDE THIS ISSUE



### Devising a strategy to maximise income



### Employers and employees should prepare for NEST



### Critical illness cover for your mortgage repayment risk



### Funding your children's future with a Junior ISA

## Devising a strategy to maximise income

With the returns on cash deposits so low at present, and with inflation so worryingly high, many people are searching for a way to squeeze more income from their investments and savings. As your adviser, we're in the ideal position to tell you about income-generating opportunities.



Is now the time to squeeze a little more from your investments?

### There are a few key points to consider:

- Are your cash deposits working hard enough? We all need to maintain an amount of cash as a rainy-day fund - generally considered to be sufficient to cover three to six months' normal outgoings - so it is essential to find the accounts that pay the best rates and offer the best terms and conditions.
- You will usually find that, the better the rate, the less flexible the account as far as access to your money is concerned. You may also be required to maintain a minimum balance.
- You should consider using your cash ISA allowance (up to £5,340 in tax year 2011/12, up to £5,640 in 2012/13) to avoid paying tax on your savings.
- Bonds such as those available from National Savings (ns&i) can offer very attractive returns, although you may have to tie-up your money for a lengthy period. There are also limits on how much you can put it. Premium Bonds are also attractive to many people. They do not pay a regular income, but there is the prospect of scooping a big prize. The maximum you can hold in Premium Bonds is £30,000.
- If you are tempted by income-yielding investments (as opposed to simple savings) and these are compatible with your attitude to risk, you should consider using your ISA allowance. You can invest up to £10,680 in a 2011/12 stocks and shares ISA. If you have a cash ISA as mentioned above, you can use the amount beyond your cash holding up to £10,680 in your stocks and shares version. The total

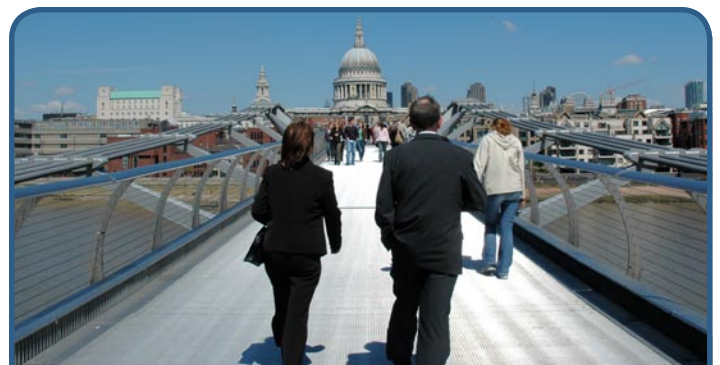
ISA allowance for 2012/13 will be £11,280.

- There are many income-oriented investment funds from which to choose. These tend to invest in the shares of companies that traditionally pay high dividends, at current share prices equivalent to around 5%. The net "yield" is then passed onto you as a fundholder, unless you ask for it to be reinvested.
- You can also consider bond funds. These invest in corporate and Government bonds, which are issued as a way of raising capital. The quality of bonds can vary widely in that there may be some risk of the issuing company (or even a government) defaulting and not paying either the interest due on the bond or repaying the capital itself. That said, the riskier bonds pay higher rates of interest.

We can talk you through what's available and help you allocate your wealth in the most efficient and effective way.

## Employers and employees should prepare for NEST

This year will see a huge change to the way pensions are organised in the UK, thanks to the introduction of auto-enrolment and the National Employment Savings Trust - or NEST. By specified staging dates between 2012 and 2016, dependent mainly on their size, all employers will need arrangements in place to auto-enrol the bulk of their employees in an approved workplace pension scheme or in NEST. The self-employed will also be able to participate.



NEST – a more straightforward approach to pensions?

The Government is introducing auto-enrolment and NEST to help tackle the UK's growing pensions crisis, which has arisen because most of us simply aren't saving enough for our retirement.

### Taking action on retirement planning

The thinking behind auto-enrolment is that people need strong encouragement to grasp the pension-planning nettle. For this reason, employees will automatically be enrolled in their employer's scheme or in NEST and will have to actively choose to

opt out if they want to. Employees will have to pay a minimum contribution, and employers will have to chip in on behalf of their workers, either into NEST or a suitable alternative. The Government will also contribute - the chosen scheme will claim back basic rate tax relief at 20% of the contribution and add it to the pot.

Initially, the minimum contribution will be 2 per cent of what are called "qualifying earnings" (for those aged 22 to 65, this is earnings in the band between £5,715 and £38,185, in 2011/12 terms; those aged between 16 and 75 and earning over £5,715 can enrol on request). Of this, the employer must contribute 1 per cent. In 2016 the minimum contribution will rise to 5 per cent of qualifying earnings (of which the employer must contribute 2 per cent), and in 2017 the minimum will rise to 8 per cent (employer minimum, 3 per cent).

### Reducing complexity

Another key part of the NEST initiative is clearing away some of the complexity that clogs the wheels of the pensions market. At the moment, many people have bits and pieces of pension provision from the various employers they have had over the years. NEST will act as a single, lifelong retirement pot that they can transfer to a new employer if they change jobs.

Employees can choose whether to make decisions about where their money is invested or simply leave it to the NEST scheme managers.

We're here to advise companies and individuals on how to make the best of the opportunities to fund their retirement income, particularly if they are concerned that the 'default' NEST scheme may not be the best option.

*The information and figures contained in this article are based on the current legislation, which is subject to change.*

## Critical illness cover for your mortgage repayment risk

**Mortgage borrowers require insurance that can pay off their loan in an emergency. Most people recognise that life insurance is essential for anyone with dependants - the proceeds of the policy can help minimise debt and disruption in the wake of a tragedy.**

Less well understood is the need for insurance that will pay out if the policyholder contracts one of a list of about 30 critical illnesses such as heart attack, cancer, stroke and coronary artery by-pass surgery. Other conditions that might be covered - each policy has its own list - include multiple sclerosis, Alzheimer's, Parkinson's, paralysis, blindness, deafness, kidney failure, major organ transplant and any diagnosed terminal illness.

Permanent disability would also trigger a claim. Again, each



One less worry if critical illness strikes

policy is likely to have its own definitions of what constitutes sufficient disability for a claim to be paid. As your adviser, we can help you choose the best for your circumstances.

The proceeds of a critical illness policy are paid as a tax-free lump sum.

According to figures from Prudential, the possibility of surviving a critical illness before age 65 is almost twice as great as dying in the same period. So, if you see the sense of having life insurance, you must see the sense of having critical illness insurance as well, especially if you have a mortgage.

We can also advise on a range of policies that combine both life insurance and critical illness cover, meaning you are protected if either grim eventuality occurs.

### High incidence of illness

According to British Heart Foundation research in 2011, around 124,000 people in the UK suffer a heart attack each year, and half of them will not return to work. And every day, according to Cancer Research (2011), around 125 women are diagnosed with breast cancer. Insurance companies are finding that the average age of people making claims on critical illness policies is in the mid-40s.

Munich Re says that 1 in 3 men and 1 in 4 women aged between 40 and 70 will contract a critical illness.

### Ensuring the mortgage is covered

Most critical illness policies are put in place to cover the cost of a mortgage should the borrower become unable to earn a living or look after the home and the children. But there are no restrictions on how you use the proceeds of the policy if you are unlucky enough to fall victim and make a successful claim.

As with all insurance, expert advice is essential to help you identify the correct critical illness policy. For example, if you are linking cover to your mortgage liability, your choice of policy will be determined by whether you have an interest-only loan or a capital and interest arrangement.

## News in brief (data compiled by The Financial Marketing Department Ltd. except where otherwise stated)

Whilst the final quarter of the year saw the FTSE100 gain 8.6%, ending the period at 5,572, it also recorded a loss over the year of 5.5%. This reflected the underlying flight from risk by investors as the Eurozone debt crisis remained unresolved with a distinct lack of political or fiscal action being observed.

The mid-cap FTSE250 saw an improvement of 2.8% over the last quarter, ending the year at 10,102.9. Although just like its big brother, the FTSE100, the junior index managed to record an annual loss of 12.6%, as the switch to safety continued within the global investment markets.

On the foreign exchanges, sterling (like the greenback) gained through its safe-haven status, ending the quarter unchanged against the US Dollar at \$1.56. Against the Euro, however, it saw an improvement of 2.5% ending December at €1.19. Investors being wary of the possible downgrading of some European countries credit ratings.

Commodity prices reflected the downbeat global economic forecasts, with Oil (Brent Crude) at \$107.38, up a marginal 3.2%. Gold remained stubbornly below \$1,600 an ounce, ending the year at \$1,531, down 5.8% on the quarter, but still 8% up on the year. This is \$390 short of its all-time high of \$1,921 reached in September.

## Funding your children's future with a Junior ISA

Parents and grandparents naturally want to provide for their children's future. The previous Labour government introduced the Child Trust Fund (CTF) for this purpose in 2002. The present government has replaced the CTF, for children born on or after 3 January 2011, with the Junior Individual Savings Account - the Junior ISA.

As with the CTF, the essence of the Junior ISA is that it is a tax-free savings account that runs until the child reaches adulthood. Children under 18 who were born before the CTF was introduced in September 2002 are also eligible.

### Flexibility to the fore

Anyone - parents, grandparents, other relations and friends - can put money into a Junior ISA on behalf of the named child. You can feed in occasional lump sums or make regular monthly contributions. The annual limit per child on contributions is set at £3,600 per tax year until the child reaches 18 (this limit will rise in line with the CPI in April 2013).

When the child reaches 18, the Junior ISA rolls over into an adult ISA and then - and only then - can the child get access to the money.

If a Junior ISA ran for 18 years and took in the full £3,600 (not including any CPI increase) each year, that would give a total investment of £64,800. If you achieved a return of 3 per cent per annum you'd be looking at a nest-egg of around £85,000,

the real-terms equivalent value of which would depend upon inflation rates meanwhile.

### Investment options

There are two types of Junior ISA: one is a tax-free cash savings account, the other a stocks & shares investment. The child can have one of each, with contributions divided in whatever proportion you or other contributors choose (up to the total limit of £3,600). So, if you had £1,000 to invest in any given year, you could allocate £250 to the savings account and £750 to the stocks & shares investment.

As with any equity-based investment, the stocks & shares Junior ISA is the riskier option - you might end up with less than you put in. But the potential returns are higher than for a savings account.



Start young with a Junior ISA

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