



## THE TRANSFER MARKET

Most people switch jobs several times during their working life; however, when you change employers, it is worth thinking about the pension pot that you have accrued. You might wish to consider combining your pensions into one pot. It is easier to keep an eye on fund performance if your pensions are all under one umbrella; moreover, a single pension pot will incur less paperwork and administration, and could also generate lower costs and better overall performance. Sounds like a no-brainer? In theory yes, however, there are some important issues to consider before taking the plunge.

Most occupational pension schemes and private schemes can be transferred, but there are restrictions and potential pitfalls. It is not usually worth transferring final-salary or public-sector pension schemes; the benefits are too good to lose. You should only transfer if you have actually left a company: if your current employer contributes to your existing occupational pension scheme, you should not switch. Also it is worth noting that the money in your pension can only be transferred from one pension scheme to another (until you have retired), and not every new pension scheme accepts inward transfers. If your pension pot is very small, it may not be worthwhile switching: you will have to pay charges when you transfer, and some providers impose harsh penalties if you leave their scheme. And, if you are relatively close to retirement, you might not have sufficient time to recover the costs incurred by transferring.

According to the Pensions Advisory Service, the Department of Work & Pensions (DWP) is set to publish a consultation paper examining the consolidation of small pension pots. Possible approaches could see your pension pot moving with you when you change your employer; alternatively, when you change your job, your pension pot could be left behind and – unless you decide to opt out – the cash would automatically be transferred to a central aggregator fund. The DWP believes the changes would increase the visibility of pensions saving: instead of seeing several small figures, each individual would be able to view one larger, consolidated figure.

Transferring and aggregating your pension pots might generate significant long-term benefits; however, any decision to do so should be taken for the right reasons. Tread carefully and, above all, take expert advice before making an irreversible decision. Speak to us to ensure you only undertake any changes if they are in your best interest.

## WELCOME

In this age of 24-hour news and sensationalist headlines it has possibly never been more daunting for the average investor, pension contributor or saver. We have all seen the headlines of dramatic drops in the FTSE and unless we appreciate that the media prefer to highlight drops rather than increases nobody would ever invest.

2011 has certainly be an erratic year in the markets with global events contriving to generate a roller coaster effect. The Arab Spring, the Japanese earthquake, Euro scepticism, the US credit rating being cut, Berlusconi resigning as Italian PM and of course the Greek debt crisis have all hit the headlines and caused shock waves.

However, these short term (relatively speaking) fluctuations should be taken in context compared against the length of most pension and

investments. When we initially met with you your respective adviser will have discussed long term objectives with you and will bear those in mind when providing you with your next review. We believe that these long term goals are what should be at the forefront of your financial planning, not knee jerk reactions to headlines.

Although nobody doubts the economic climate here in the UK, and indeed worldwide, is tough; there remains considerable opportunities for savvy financial planning and making the most of your money.

Our message this Christmas time is really one of reassurance. If you have any queries, please contact us but try not to let any headlines distract you from your long term objectives – and of course, enjoy your Christmas.

Best regards,  
**Ray McHugh, Managing Director.**

## DILNOT REPORT

Already struggling under the weight of rising costs and budget cuts, the UK faces a crisis in the funding of social care for the elderly. Since 2004, the number of Britons aged over 85 has risen by two-thirds, and demand for care has outstripped supply. Looking ahead, the UK's elderly population will continue to expand. In response, the Government set up the Commission on Funding of Care & Support – headed by economist Andrew Dilnot – to undertake an independent review of the cost and funding of social care in England.

The Dilnot Report found that the current system is “unfair and unsustainable”, and called instead for a form of collaboration between the state and the individual. It recommended that the means-tested threshold – above which individuals are liable for the cost of residential care – should be increased from £23,250 to £100,000, and that individuals' lifetime contributions towards the cost of their social care – which is currently unlimited – should be capped at a recommended £35,000. Those living in a care home will have their food and accommodation costs capped at between £7,000 and £10,000 each year. The system should be national and portable, in order to ensure that those who move house are not disadvantaged.

The proposals have raised questions about cost – if implemented, the recommendations would increase the annual charge to the taxpayer by £1.7bn. Controversial current rules mean the elderly often have to sell their homes in order to finance their care, but the Dilnot Report proposes that the value of the person's home should only become a factor if they move into a residential care home.

Andrew Dilnot commented: “Putting a limit on the maximum lifetime costs people may face will allow them to plan ahead for how they wish to meet these costs.” At present, according to the Dilnot Commission, one in four people will spend little or nothing on social care. Half will spend more than £20,000, and one-quarter will spend more than £50,000. One in 10 will spend more than £100,000. Looking ahead, insurance companies are expected to step into the breach and offer solutions to help individuals and advisers to plan ahead. It is difficult for individuals to forecast the cost of their future needs, but it is important to consider how you are going to fund the cost of any care that falls below the recommended cap.

Long term care planning is important and we would encourage you to discuss your circumstances with us.

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## BANKING REFORM

## TIME TO START SAVING

Total UK personal debt stood at £1,452bn at the end of May 2011, according to figures from Credit Action – almost as much as the whole country produced in the year to June 2011 and a sum that equates to over £8,000 per household (excluding mortgages).

Contrast that with the nation's savings levels, which saw the average household save just £996 over 2010 – or £2.73 a day. However, in an environment where it has become the norm – and, until recently, all too easy – for individuals to make purchases with debt, changing this 'enjoy now, pay later' mentality is going to be difficult.

You may be sure, however, that the coalition government is keen to encourage such a change. Work & Pensions Secretary Iain Duncan Smith has been quoted as saying: "We do not save enough in this country...it is appalling, and changing the culture...it is critical." Right now, the main incentives to encourage such saving involve limiting the amount of tax you pay on certain savings products. Certainly, the Government needs to do more if they are going to generate the kind of interest that will push more people to act.

Yet, if there was ever a good reason to start changing our behaviour, it is surely the fact it costs the average household £2,500 a year in net income just to meet its interest payments. That is approximately 15% of the average net wage going to lenders that could otherwise be heading into our pockets. That fact really should be an incentive to start saving.

The UK banking sector is set to experience "fundamental and far-reaching" changes following the publication of a report from the Independent Commission on Banking (ICB), chaired by Sir John Vickers.

The report recommends that UK banks should ring-fence their retail banking operations from their investment banking divisions in order to protect retail customers and taxpayers. The ICB believes the move will "make it easier and less costly" to sort out banks that might get into trouble. The report does not advocate total separation, because the Commission believes that a strong ring-fence can achieve the same stability benefits at a lower economic cost. Ring-fenced institutions should have independent boards with independent directors and a separate chairman. The ICB believes that ring-fenced banks should be the only businesses allowed to provide core domestic retail banking services.

The measures aim not only to safeguard the UK financial system and its customers – not to mention the taxpayers that bear the cost of expensive bailouts – but also to promote competition. At present, the retail banking sector is dominated by the four biggest players, who

administer 77% of personal current accounts. The report suggests that Lloyds might "substantially enhance" the planned sale of at least 600 of its branches – which has to take place by November 2013 – in order to assist in creating "a strong and effective new challenger" on the UK high street.

The ICB believes that, in order to achieve stability in future, UK banks should also have a larger capital 'buffer' in place than the 7% demanded by the Basel Committee on Banking Supervision. Looking ahead, all UK banks will require a cushion of at least 10%, but the biggest banks will need a buffer of between 17% and 20%.

The Investment Management Association welcomed the report, commenting, "The arguments for separating retail banking from global wholesale and investment banking are sound" and describing the recommendations as "A thoughtful policy approach for protecting taxpayers from the potential damage of another banking blow-up." However, the British Bankers' Association urged the UK authorities to ensure that the full impact of the measures is properly understood.

## UK ECONOMIC UPDATE

The UK economy is expected to remain "broadly flat" until the middle of 2012, according to Governor of the Bank of England (BoE) Sir Mervyn King. The UK economy has expanded by only 0.5% over the last 12 months, compared with growth of 2.6% over the preceding 12 months, and there is little to suggest that economic growth is starting to pick up. Looking ahead, the BoE believes that, "the move towards a more balanced economy is going to be long and arduous", and the eurozone's debt crisis remains a significant risk to the UK.

The rate of unemployment rose to 8.3% during the three months to September to reach its highest level since 1996, while unemployment among young people surged to a record level of 21.9%. Wage growth slowed to an annualised

rate of 2.3% during the three months to September, although the BoE expects real growth in salaries to pick up during 2012.

Consumer confidence has dropped to a record low, according to the Nationwide Building Society, amid ongoing uncertainty about the outlook for economic growth and unemployment and enduring concerns about the eurozone's debt crisis. Rising prices continue to erode consumers' ability to spend while retail sales volumes remain broadly flat, although the value of sales has increased, reflecting the effects of higher prices. More recently, sluggish consumer activity has spurred many businesses to cut their prices, and aggressive discounting has helped to force down food prices.

The rate of inflation – represented by the Consumer Prices Index – decelerated slightly to 5% during October, compared with a rate of 5.2% in September. Inflationary pressures remain intense: although they have been eased by lower prices for food, air fares and petrol, the rate of inflation remains far above the BoE's target level of 2%. In a letter to the Chancellor of the Exchequer, Sir Mervyn King attributed the high rate of inflation to January's rise in VAT and increases in import and energy prices, and said that, if these "temporary" factors were stripped out, inflation would be below the 2% target level. Overall, the BoE believes UK inflation has peaked and is likely to subside sharply during 2012 as factors such as January's rise in VAT are removed from the calculation.

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