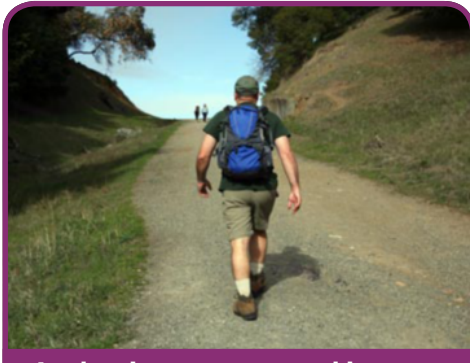




Your independent window on financial issues

Suffering from low interest rates?



Are low interest rates making your life an uphill struggle?

Recent economic data suggests that we are unlikely to see interest rates rising substantially for some time to come.

In fact, the good weather and Royal Wedding in April may have been counter-productive: while some aspects of consumer spending may have been given a boost, it is likely that when the final figures are available (which may not be for a month or two yet, because they are often revised up or down), the all-important manufacturing output is likely to have suffered from a virtual two-week holiday.

Another economic problem is that inflation is likely to rise during the latter part of this year, partly due to higher energy costs. The Bank of England's Monetary Policy Committee must inevitably be cautious about how quickly interest rates are increased to help bring rising prices under control, as premature action could further slow economic growth.

Should we be gloomy?

While inflation is bad for savers and those on fixed incomes, it is not necessarily so for investors. There are strategies that can help those investing lump sums or regular amounts to avoid the worst pitfalls of inflation. These can include investing in sectors that are likely to benefit from what is going on, such as energy companies, and those areas where growth may be expected, such as alternative energy businesses. Before considering such an approach, however, it is essential to discuss this with us, because some investments can carry higher risks than some individual investors may feel comfortable with.

In any event, a balanced approach is likely to be more beneficial than putting all your eggs in one basket.

Lower risk alternatives

One option is to consider investing in bonds. Some of these are government backed, others are issued by businesses. In essence, those issued by the UK and some other governments are likely to carry the lowest practical risk although, as we have seen from recent events, some governments that have failed to bring borrowing under control have recently seen their credit ratings reduced - and in some cases downgraded almost to the lowest level. This means that their bonds could - in theory at least - become worthless.

However, bonds issued by National Savings and Investments can be considered relatively secure and it is expected that NS&I will issue some RPI linked bonds within the next year, which could be of interest as part of a balanced investment strategy.

Overall, it is likely that the economy will recover faster than the worst predictions forecast, but more slowly than optimists may hope. We are, after all, in this together. Why not ask us to review your investments now?

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Long-term absence hurts businesses

One issue that may not occur to many business owners, until it actually happens, is the potential impact on profitability should one or more employees suffer from long-term illness.



Private care can speed recovery

While this primarily affects the employee and his or her family, businesses themselves can also suffer the consequences of someone being off sick for a long period.

When asked, in a survey run by a leading insurance company, half of all employers agreed that long-term absence is a potential issue for their business, while a third are concerned about how they would balance their obligations towards employees, while managing the business.

Not just the bottom line

It is not just profitability that can be affected by employees being off sick. Other workers may be concerned about potential issues in the workplace if colleagues are off sick for long periods as a result of stress, accident at work or even illness.

In addition, workloads could be pushed onto other employees - or they may fear that this will happen - when a colleague is absent for a sustained period. Even if a temporary replacement is recruited, this can result in others having to undertake training or cover for inadequacies of experience.

What can a business do to protect itself?

The immediate financial implications of long-term incapacity can be addressed by putting a group sick pay scheme in place. This can be done at a level that is both affordable to the business and also ensures that employees are able to carry on living comfortably while not working. This is far from being simple altruism. By ensuring that employees do not have to worry about money, you may facilitate a far faster recovery from many conditions, which may be exacerbated by stress.

It may also be worthwhile to arrange a group private medical insurance scheme that gives employees (and their families) access to private medical care when it is needed. This can not only ensure faster access to treatment in the first place, but

may further shorten 'downtime' if specialist private treatment also speeds recovery.

What about the business itself?

In the case of certain 'key' employees, the business could suffer a disproportionately large financial impact from the temporary loss of his or her services. It is possible to arrange insurance that pays out to the company, in the event of a long period of incapacity of a key person, in order to facilitate recruiting a high calibre temporary replacement - which is likely to cost more than the key person's salary, by virtue of recruitment/agency fees and compensating the replacement for the short-term nature of the assignment.

As with any form of financial decision, it is important to always seek independent financial advice before making any decision regarding business-related insurance.

Planning for later state pensions

Investors may be pleased to learn that they no longer have to purchase an annuity with their pension fund by the time they reach 75, but news that they could have to wait a very long time for their state pension will be less welcome.



People continue to live longer

The state pension age, already set to rise to 66 by 2020, could soon be subject to a new 'automated' approach towards future age increases based on regular, independent reviews of longevity. So, as people continue to live longer, they will have to wait even further into old age before the state pension starts. So 66 could eventually become 70, 75 or even later.

A retrograde step?

Actually, the Old Age Pension, as it was then called, was introduced by Lloyd George in a 1909 Act to provide a (non-contributory) pension for those aged 70 or over. This was at a time when few people could expect to reach such an age, so the fact that our new system is still intended to start providing benefits well before people reach the end of their lives means it remains superior.

The 1909 version paid a weekly pension of between 10p and

25p a week (the pre-decimalisation equivalent) or 37.5p a week for married couples (roughly a quarter of today's basic state pension in real terms). Only workers earning less than £31.50 per year and of 'good character' could become entitled to the pension.

Personal provision was essential even then

The level of benefit was deliberately set low to encourage workers also to make their own provision for retirement.

The need for personal provision remains today, which is why the Government is also introducing the National Employment Savings Trust for all employees who do not have access to an occupational pension (although they can opt out).

Today, the basic state pension is worth about £102 per week for a single person or £163 per week for a married couple - clearly not sufficient to live on comfortably, so it is important to ensure that you have adequate private provision either via an employer's scheme or a personal pension. Those who fail to make adequate provision could find themselves with insufficient income when they come to retire.

Covering the delay

Those who previously had no intention of working beyond age 65 (or even 60 for women) now face the prospect of working much longer before they receive their basic state pension. A key advantage of private pensions is that they are available when you want to retire, rather than when the Government says it can afford to start paying you an income.

By managing your own retirement plans effectively, the basic state pension can become the 'icing on the cake' with the main retirement benefits coming from your own (or an employer's) pension plan.

It is important to seek independent financial advice before making any decision regarding your finances. The value of investments is not guaranteed; you may get back less than you put in.

Offset mortgages revisited

For some borrowers, low interest rates have provided an easy route towards accelerated capital repayments.

'Offset' mortgages are arrangements whereby monthly interest is due not on the entire mortgage balance but on the *difference* between this figure and the total value of any money deposited with the lender in 'associated' accounts. Those with significant savings with the lender may decide that there is less need to consider seeking more favourable rates than those whose sole relationship with the lender is a conventional mortgage.

Sounds strange?

By holding money in an 'offset account', the effective interest

rate you receive is equal to the rate of interest on the mortgage itself (which is likely to be higher than you could get from any savings account). A rise in the mortgage rate means that you are **in effect** getting more for your savings. More importantly - especially for higher rate taxpayers - there is no tax liability (unless savings are higher than the outstanding mortgage); the interest element of each monthly payment is simply reduced. Money invested anywhere else except in an ISA is normally subject to tax on the interest.



Money invested can reduce mortgage interest

What happens to repayments?

Those with offset arrangements do not pay less each month. Instead, the repayment level set at the outset (adjusted for any change in interest rates) remains the same and any excess brought about by the fact that savings 'offset' borrowings is used immediately to reduce the outstanding balance. The following month, even less interest will be due, but as repayments remain the same, the effect is further to accelerate repayments.

Borrowers who maintained the initial level of repayment during the two years of very low interest rates, should have reduced their debt by a considerable margin. This would suggest that continuing current repayment levels will ensure ongoing overpayments which will eventually reduce the mortgage term. For those who do wish to consider a fixed rate mortgage, some offset mortgages now offer this option.

Mortgages are complicated and there are many differing plans available. It is therefore important that you should seek professional advice before making any decision relating to your personal finances.

Your home may be repossessed if you do not keep up the repayments on your mortgage. A fee may apply for mortgage advice and you must ask your adviser for details before making any decision relating to a new mortgage as the actual amount will depend on your personal circumstances, but in most cases is unlikely to exceed 0.5% of the loan value (on a typical £100,000 mortgage, this would be £500).

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

The second quarter of 2011 saw the FTSE100 inch ahead by 0.63%, largely held back by developments in Greece although apparent resolution of this issue helped towards the end of the quarter. This, however, masks the fact that the index is now almost 21% higher than a year ago.

The mid-cap FTSE250 performed more strongly over the quarter and gained 2.95% to finish the period more than 27% higher than at the end of June 2010. If the economy is to grow in 2011/12, much of the growth could come from this sector.

Sterling gained considerably against the dollar in April, but fell back during May and June to end the quarter just 0.15% higher. A relatively weaker pound is good for exporters, which is just as well, because it fell by -2.43% against the euro during the quarter, and may fall further if interest rates in Europe rise again.

House prices have remained fairly static throughout the second quarter of 2011 with the Nationwide house price index showing a modest 0.1% rise over the quarter. The possibility of an interest rate rise some time within the next year and uncertainty over employment prospects are unlikely to encourage prices upwards.

Income protection

Since 6th April, Statutory Sick Pay (SSP) has been worth £81.60 a week, for those earning at least £5,304 a year. SSP lasts for just 28 weeks, after which other forms of benefit may be available.

If you are earning £25,000 a year and suddenly become ill, your net income will fall from around £1,610 a month net, to £353.60 a month; a reduction of more than 75%. If you are only ill for a week or so, this is not likely to cause you any significant inconvenience, but should incapacity last much longer, then the financial consequences could be disastrous.

Some employees are better off

Employees working for forward-looking businesses may be members of a group sick pay scheme that provides a much higher percentage of income whilst they are incapacitated and this can last for quite a long time. However, with many companies still cutting costs to compete in the post-credit-crunch world, such generous schemes may become rare. In any event, they may not be available to new recruits.

If such a scheme is open to you, then you may not even have to do anything to benefit – your human resources department will be able to advise you on where you stand.

What about the rest of us?

For the majority of employees, however, SSP is all they have to look forward to, so making personal provision is essential if families are not to be considerably worse off in the event of serious accident or illness.

Fortunately, you can arrange various types of insurance to provide an income should things go wrong. Annually renewable personal accident and sickness insurance can provide, amongst other things, a weekly income if you are incapacitated. This can generally last for up to one or two years and the cost is based on your occupation and the amount of cover required.

For longer-term incapacity

Some illnesses can last for much longer, so permanent health insurance (PHI) is available to provide for this. PHI pays out a monthly benefit, after what is called a waiting period, until: the end of the illness; a pre-agreed age; or prior death. The waiting period is the time after the onset of each illness or accident that you have to wait before benefit payment starts and it can range from 4 to 104 weeks. The longer the waiting period, the lower the monthly cost.

The premiums, once set, remain level for the entire term, unless a basis for increases is agreed in advance – perhaps to allow for indexation of benefits, or occasionally to reflect a significant change in occupation.

This form of insurance is age related (although gender will no longer be a rating factor from 21st December 2012, thanks to a recent decision of the European Court of Justice) and, as mentioned above, occupation also influences costs.

You should take individual professional advice before making any decision relating to your personal finances.



Not much money in Statutory Sick Pay

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.