

# METCALF MOAT UPDATE

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Colin Moat  
John Riley  
Lee Taylor



**METCALF MOAT**

IFA LIMITED

*'Growing by  
recommendation'*

YOUR FIRST CALL FOR INDEPENDENT FINANCIAL ADVICE

## **Maximise Your Valuable Allowances with Help From Your Local IFA**

**Deadline: 5 April 2013**

### **ISAs – A Rare Opportunity**

An Individual Savings Account (ISA) is a rare opportunity from the Government to shelter your money from the tax man. If you are in a position to invest money, using your ISA allowance to protect it from further tax liability on income and any gains you may make, makes financial sense. As the tax year comes to an end on the **5<sup>th</sup> of April**, we thought it appropriate to remind you that you still have time to make use of that valuable allowance, providing you haven't already used it.

### **Use It or Lose It**

In this tax year, you can invest up to £11,280 in an ISA (next year £11,520) but the last date for using this allowance is **5<sup>th</sup> April 2013**, and unfortunately once that date is past, any unused allowance for this tax year will be lost.

### **A Common Misconception**

We have spoken to many people about ISA investment over the years, and have noticed that there is a **common misconception** over the term **Stock & Shares ISAs**. Many believe (and you can understand why), that you **can only hold Stocks and Shares** (Equities, being their common name) in this type of ISA, this however, is misleading. These ISAs can hold any one or number of investment funds that span the risk scale. These can range from investment in relatively cautious assets, such as Government Gilts, Corporate Bonds and Commercial Property, through to more adventurous assets, such as UK and Overseas Equity funds. A combination can be used to control the investment risk.

### **Cash Risk and Real Returns**

One question to pose is of the relative risk of returns (or interest) your cash is receiving whilst held in the bank. Not referring to risk of the bank itself, but more to do with the extremely low levels of interest rates currently available. You may or may not be familiar with the term, "real return", but for those who are unsure "real return" means returns over and

above the cost of inflation (or perhaps more appropriately the cost of living).

What appears most likely, is that the current low levels of interest rates offered will remain low in the immediate future, and interest will therefore continue to lag the cost of inflation, meaning money held on deposit could actually be lost in real terms.

Whilst Cash ISA's offer the advantage over normal accounts of no tax being deducted from the interest paid, this alone isn't likely to be enough to combat the inflation risk.

### **Uncertainty in Uncertain Times**

The future performance of any investment cannot be guaranteed and we would suggest you carefully challenge anyone who said it could. However, being able to understand the associated risk or relevant performance of an investment can be invaluable in enabling better informed decisions to be made. If you would like to discuss new or additional investment into ISA's or any other investment wrappers we would be happy to hear from you. We are also able to assist you in reviewing your existing holdings if you are uncertain as to their relative performance, tax efficiency or relevance to your current circumstances.

### **Act Now or Get A Head Start**

Our principal aim with this publication is to highlight the potential importance that the end of the tax year (5<sup>th</sup> April), presents in terms of valuable allowances potentially being lost.

We should however, also point out, that with the new tax year (6<sup>th</sup> April), comes new opportunities and allowances.

Therefore if you would like to **ACT NOW, FOR THIS YEAR'S OPPORTUNITIES** or **GET A HEAD START AND PREPARE FOR THE NEW TAX YEAR ALLOWANCES**, please contact us on **01689 891919** or email us at [administrator@metcalfmoat.co.uk](mailto:administrator@metcalfmoat.co.uk) for professional financial advice.

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Please note, Buy to Let mortgages and Commercial Borrowing are not regulated by the Financial Services Authority.

# Annuities – More OMG! Than OMO

A Pension Annuity is a secure, regular income which you purchase from an insurance company using your pension fund when you choose to retire. The insurance company is then responsible for paying you a secure income for at least the rest of your life.

We are receiving an increasing number of enquiries from clients and local residents, following receipt of their Pension Annuity “Wake Up” packs.

These may have been requested by individuals or sent by providers, as plan holders approach their nominated retirement date. The paperwork is at best confusing, particularly if the person has more than one scheme from more than one provider; as there is no uniformity in the layout of the packs. The packs often contain a random list of Annuity options, discharge and application forms, along with a form relating to the Lifetime Allowance.

Both the Association of British Insurers (ABI) and the Pension Income Choice Association (PICA), are working towards improving the packs and increasing consumer awareness of their right and even their need, to “shop around” for the best Annuity. In September last year the ABI announced a consultation into a code of conduct, which would include removing application forms from the packs.

The consultation also covers the inclusion of Annuity illustrations in their current format. There is concern that they encourage a tick box “mentality” in the client, leading them to opt for the highest Annuity rate, with little understanding of what other options may be available from the provider, what the option they have ticked actually delivers and more importantly, what options are available from other providers.

Within each pack there is an option, often buried within the pages, which is the Open Market Option (OMO).

The OMO was introduced in the Finance Act 1978 and allows members of a scheme to transfer their fund from one Life Assurance Company to another, to achieve a higher Annuity rate.

Despite the existence of this valuable option, over two thirds of people do not seek advice to find the best Annuity.

The ABI’s consultation seeks industry opinion on the recommendation that in future every pack should include a standard statement on the first page, regarding the benefits of shopping around.

The ABI’s Assistant Director of Retirement Savings, Yvonne Braun stated in a recent interview with

Financial Adviser magazine “*I think the outcome we would like from this process is for shopping around to become the norm. We want people to have increased knowledge about the products that are out there and what needs to be done. We want to see people get the most from their retirement income, especially in these difficult times.*”

Another essential reason people should consider an OMO, is to establish whether they may be eligible for an Enhanced Annuity. When the Association of Independent Financial Advisers (AIFA) conducted research into consumer’s understanding of how health may affect their Annuity income, 30% of those surveyed believed that if they advised the Annuity provider that they were in poor health that their Annuity would be reduced, when the complete opposite is the case.

Even mild conditions can have a positive effect on the amount of Annuity offered, but not all providers offer Enhanced Annuities, so it is therefore important to seek independent advice, not only to locate providers, but also to obtain the most competitive Annuity available from them.

Independent advice may also establish that despite the availability of an Enhanced Annuity from another provider, that the Annuity available from the existing provider is the most appropriate, due to a Guaranteed Annuity Rate, Enhanced Tax Free Cash, Guaranteed Minimum Pension or a combination of all three.

Once the provider is selected, discussions can take place regarding the frequency of the Annuity, whether it should be on a Single Life basis, Guaranteed, Escalated and whether a Pension Commencement Lump Sum (PCLS) formally known as Tax Free Cash, should be taken.

It is worth noting that once the payment structure of the Annuity is agreed, the recommendation may change regarding a provider, for although provider A may offer the most competitive Annuity on one basis, provider B may be more competitive on another.

So if you, a friend or a loved one are planning to look into your Annuity options and want to receive independent advice on the options available from both the existing provider and via the OMO, please get in contact.

A recent report by PICA stated “*One obvious solution is for everyone to have access to face-to-face financial advice (preferably from an Independent Financial Adviser) and indeed many people take exactly this route and generally make better decisions as a result.*”

**JOHN RILEY, DIRECTOR**