NEWS & VIEWS

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A BETTER DEAL FOR RETIREES?

The complicated and sometimes imbalanced world of annuities is heading for a welcome shake-up. At present, when retiring, many individuals opt for the perceived simplicity of buying an annuity from their pension scheme provider. However, many people do not realise they can purchase their annuity from any provider – they are not obliged to stay with their pension company.

Accordingly, the Financial Services Authority (FSA), the financial services watchdog, has announced a review of annuities. This will focus on the risks incurred by consumers who do not shop around before purchasing an annuity, in order to establish whether they are losing out. It will also examine the rates available to consumers through the Open Market Option, compared with the rates available exclusively to existing pension policyholders.

An annuity purchase is an important one-off decision that has long-term consequences for individuals if they get it wrong," notes the FSA. Of course, it is not just enough to shop around when buying an annuity – you also need to know what you are shopping around for. Annuity rates have plunged over recent years and the difference between the best and worst payout you can find in retirement is significant.

WHAT IS A PORTFOLIO?

The term 'portfolio' refers to the total collection of all your investments, across all your different accounts. Within these, you might hold a range of asset classes - a mix of equities, bonds, property and cash - and your portfolio's success will depend on how these perform within the different products. However, one investor's definition of performance differs from another as we all have different attitudes to risk and return. There is therefore no one size fits all solution. Instead, the right portfolio for you will mix the different asset classes in such a way that it should generate a decent return but in a way which takes account of your risk profile, your timescales, your needs and your financial position.

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NOTABLE UPSIDES

While Budgets generally provide scant excitement for investors, this year the red box held several points of interest. Chancellor of the Exchequer George Osborne continued his stated goal of providing support to Britain's key industries and pushing funding towards smaller companies, which should have some notable upsides for investors.

A significant initiative was the Chancellor's decision to scrap stamp duty on funds. This is ostensibly designed to support the UK's asset management industry, which is losing ground to Dublin and Luxembourg, but it should also be good news for investors. The 0.5% tax is paid by asset managers on the redemption of units in UK-based funds by investors. The Investment Management Association said the move would benefit the "ordinary investor" and help UK asset managers compete on a level playing field with the rest of Europe.

Another important initiative for investors was tax breaks on investing in the Aim market. Again, this was ostensibly to direct funding to smaller business but means investors buying shares in companies listed on Aim will not have to pay stamp duty, previously 0.5%, from April 2014.

The Chancellor is also consulting on whether Aim shares should be permitted within an Isa. The current thinking is Aim shares would continue to attract an inheritance tax exemption if held for at least two years. Again, this should be good for private investors, increasing Isa choice, and for smaller business, widening funding options. However, there is a question mark over whether investors may be better off, from a tax point of view, in an Aim VCTs, which have some tax advantages.

The Chancellor also announced National Insurance concessions for smaller companies and a one percentage point cut in corporation tax to 20%, from April 2015, which should be supportive for all businesses. CBI Director-General John Cridland commented: "An extra one penny cut in corporation tax will make the UK one of the most internationally competitive locations in which to do business.

Among incentives for specific industries were the 'Help to Buy' scheme, which will provide guarantees for £130bn worth of mortgages and immediately boosted housebuilders' share prices. Meanwhile 'fracking', the controversial shale gas extraction technique, will receive tax breaks, with the Chancellor hoping it will herald an era of lower gas prices as it has in the US. Incentives to encourage companies to locate their research and development in the UK have also been increased.

ETFS EXPLAINED

Exchange-traded funds (ETFs) are a relatively new addition to the investment basket and have proved very popular with investors. Like shares, ETFs are listed on the stockmarket, but they track an index rather than any individual company. This index could be something straightforward - like the FTSE All-Share - or it could be more complicated or sector-specific such as a commodities index. The main benefit is that they have low expense ratios and minimum investment levels in line with shares. However, they can also prove a very effective way to gain access to obscure investments such as forestry or sugar should you want to add spice to a wider portfolio.