



LUCAS FETTES  
& PARTNERS

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EXCLUSIVELY FOR PERSONAL CLIENTS OF LUCAS FETTES & PARTNERS

## WELCOME TO INSIGHT

These are challenging times driven by continued market volatility resultant from the uncertainties within the Eurozone, downgraded economic growth forecasts and the levels of inflation we are all feeling the impact of.

This combined with historically low interest rates makes investment for growth or income a real challenge. What we believe is most important though is to have a very clear understanding of the level of risk you need or are prepared to take, which is determined through the financial planning process, and work within this.

The Retail Distribution Review which removes product provider influenced commissions from all new pension and investment products becomes effective at the end of 2012. Future charges for adviser services will need to be agreed in advance and either paid as fees or deducted from a product arranged. Existing arrangements can remain in

place but all new transactions will need to deal with in this manner.

Despite the challenges ahead we believe there is a valuable role to be played by independent, fee based financial planners such as Lucas Fettes, providing ongoing services to enable clients to achieve their financial objectives.

I hope you enjoy reading this edition of Insight and should you have any questions or wish to discuss anything covered, please contact your Lucas Fettes consultant, phone us on 0845 357 8910 or email us at [LFP@lucasfettes.co.uk](mailto:LFP@lucasfettes.co.uk).

Mark Brown, Director

# NEWS...

## NEW LUCAS FETTES WEBSITE...

For some time now we have been aware that our website was in need of updating to improve user experience and increase overall site performance.

We have now launched the new site so please log on and take a tour at [www.lucasfettes.co.uk](http://www.lucasfettes.co.uk). We hope you enjoy the new website and would be very interested in your feedback.



## HEAD OFFICE MOVE...

Lucas Fettes & Partners have relocated our head office to Lombard Street in the heart of the City of London.

The move, which comes after almost 20 years in the current head office in the West End, marks a new era for our company and solidifies its commitment to be one of the leading independent providers in the insurance and financial services industry.

The relocation of our head office marks a significant move forwards in the development and growth of Lucas Fettes and Partners. The amalgamation of all our London offices into one office in the City is a big step forward for us as we continue to raise our profile and standing in the insurance and financial services industries.

## LUCAS FETTES ISA

### Lucas Fettes launch new managed portfolio service

At Lucas Fettes we believe that it is important for investors to have access to arrangements that offer the potential of 'real growth' over inflation whilst adopting a level of risk they are prepared to accept.

Rather than just give potential investors a restricted choice of funds and ask them to select one or more (which in essence can place total reliance on the fortunes of just one fund unless a diversified selection is made), Lucas Fettes are offering an

investment strategy that provides clients a diverse and deliberately structured portfolio with automatic quarterly review and rebalancing to maintain a suitable asset allocation, determined by a professional asset manager.

If any single fund's performance deteriorates, the manager will automatically replace that fund with another suitable fund that fits the chosen asset class if deemed necessary. Therefore

investors will be gaining an element of active fund management at reasonable cost.

If you would like more information on the benefits of our managed portfolio ISA or to discuss your requirements, email us at [ISA@lucasfettes.co.uk](mailto:ISA@lucasfettes.co.uk) or phone us on 01603 706854 and speak to one of our qualified advisers.

## PENSIONS UPDATE 2011

### Changes to pension legislation

Over the past 6 months a number of important changes within the pension tax regime have come into effect. These changes not only affect tax relief on contributions paid, but the lifetime allowance and annuitisation rules for the over 75's. This article outlines the main headlines.

#### CONTRIBUTIONS

- From April 2011 the annual allowance for all was reduced from £255,000 to £50,000 (subject to a maximum of 100%

of pensionable earnings). It looks likely to remain at this level until the end of the 2015/16 tax year, from which point any increases will be in the form of indexation.

- Providing a pension plan was in place during the year in question, individuals will be allowed to carry forward unused contributions from the previous three tax years based on an assumed annual allowance of £50,000 for the 2008/09, 2009/10 and 2010/11 tax years.

- Tax relief of up to 50% will be available subject to pensionable earnings.

#### LIFETIME ALLOWANCE

- The Lifetime Allowance will be reduced from £1.8m to £1.5m on 6th April 2012.
- Those individuals who put in place A Day protection before 6th April 2006 (Primary or Enhanced) will continue to be unaffected by the reduction in the annual allowance.

- 'Fixed Protection' will be available to those whose funds will (or may) breach £1.5m and yet remain under £1.8m by the time they take benefits. Applications must be made to HMRC by 6th April 2012 and this application will necessitate the ceasing of all future pension contributions.
- If your employer operates 'auto enrolment' into a pension scheme post 6th April 2012 (under the Pensions Act 2008), employees will have 30 days to 'opt out' before Fixed Protection is lost. If the employer's scheme is not under the Pensions Act 2008, Fixed Protection will be lost.
- The ability to pay contributions above the annual allowance without a tax charge in the final year, within which all pension benefits come into payment, has been removed.

### AGE 75

To make the UK tax system simpler, on 10th December 2010 the Government announced that legislation would be introduced to remove (as from 6th April 2011) pensions tax rules that forced members of registered pension schemes to secure an income by age 75. Key benefits are:

- The new rules will enable individuals with defined contribution pension savings (from which they have not yet taken benefits) to defer a decision to take benefits indefinitely as from 6th April 2011.
- The ASP rules are being repealed for both new and existing pensioners and will be replaced by the more generous Drawdown Income options outlined below.
- There is no longer a requirement to take all tax free cash by age 75. This can therefore be accessed throughout life.
- Age 75 remains, however, a benefit crystallisation event and therefore any tax free cash not taken before age 75 will be subject to the 55% tax charge on death.

### DRAWDOWN INCOME

The income that can be withdrawn from drawdown pension funds after age 55 will be a choice between:-

- Capped Income. Limited to 100% of the equivalent annuity (this is a reduction from the 120% currently enjoyed pre 75, but an increase for those over 75, who are currently restricted to 90%). There is no minimum income requirement and income levels will be reviewed every 3 years before age 75 and annually thereafter.
- Flexible Income. Providing policyholders have at least £20,000 guaranteed gross annual income (from state pension, occupational schemes, private pension or a combination of both), they can take unlimited amounts from the pension fund, subject to their marginal rate of tax.
- For drawdown arrangements commenced before 6th April 2011, the new withdrawal limits take effect:-
  - for persons currently in USP Drawdown, from the date of the next quinquennial review
  - for persons reaching age 75 on or after 6th April 2011, from the next policy anniversary after 6th April 2011
  - for persons age 75 before 6th April 2011, the altered drawdown limits take effect from the next anniversary date after 6th April 2011
  - for persons who reached age 75 between 22 June 2010 and 5 April 2011, the changes will have effect from the start of their next drawdown pension year to begin on or after 6 April 2011
  - immediately at the point of transfer to an alternative provider's drawdown contract (USP Drawdown to USP Drawdown transfer).

### DEATH BENEFITS IN DRAWDOWN

- If pension benefits have already been taken (funds crystallised), the tax rate on lump sum death benefits for all will be 55% for deaths on or after 6th April 2011. This is an increase from 35% for those currently under 75 and a welcome reduction from 82% for those over age 75 who were previously in ASP.
- There is no change in respect of tax on death before benefits have been taken; the lump sum can be taken tax free.
- Unused Pension Drawdown funds may be donated to charity, tax free,

if a member dies without any living dependants.

- As from 6th April 2011, there will be no inheritance tax levied on death of the member in relation to any monies remaining with the drawdown pension fund.
- In addition the 'omission to act' rules will be removed (tax charges due to deliberate failure to buy an annuity to protect fund).
- In cases whereby pension trustees have no discretion regarding the direction of payment of death benefits (retirement annuity plans for example) the death benefit will be paid to the Estate and IHT will continue to apply.

### TRIVIAL COMMUTATION

- From April 2012, the trivial commutation limit will be de-linked from the lifetime allowance, therefore remaining at its current level of £18,000.

### COMMENTARY

This is yet another set of major changes to pension legislation on top of those that we have seen in the last 10 years and highlights the value that Lucas Fettes can give clients in relation to the analysis, guidance and implementation of a structured retirement income planning strategy.

Whilst the reduced annual allowance will restrict the level of contributions for some, for those where carry forward is available there will still be the opportunity to make a sizeable contribution to their pension fund. This can be done either via their employer or themselves so long as they have relevant pensionable earnings.

In terms of drawdown in payment, for those over the age of 75 the new rules will offer greater flexibility over the income they can take and enhanced lump sum death benefits. Those under the age of 75 will potentially see a reduction in the maximum amount of income available to them at their next quinquennial review and an increase in the tax that would be applied to any lump sum death benefits.

If they haven't done so already, your Financial Consultant will be happy to discuss how the above changes may affect you based on your personal circumstances.

# LUCAS FETTES, NCVO AND SCOTTISH WIDOWS LAUNCH WORKPLACE PENSION PROPOSITION FOR THE VOLUNTARY SECTOR

Working together with the National Council for Voluntary Organisations (NCVO) and Scottish Widows, Lucas Fettes have launched a workplace pension and employee benefits proposition to meet the specific needs of voluntary sector employers and employees. It incorporates a combination of financial advice from Lucas Fettes, the award winning Scottish Widows Group Personal Pension and mymoneyworks (the online financial education and planning facility).

Richard Williams, Director of Enterprise and Development at NCVO, said: "Creating this unique offering with Lucas Fettes & Scottish Widows provides the best of both worlds for our members and other voluntary organisations. This workplace pensions solution has been designed to add real value to both voluntary sector employers and their employees, combining the latest technologies with competitive pricing and access to financial advice, helping employees consider their financial futures. Many of our members will value the advice and support they can access through this service to enable them to deal effectively with these new regulations."

If you require further information on this new scheme, please visit our microsite at [www.scottishwidows.co.uk/ncvo](http://www.scottishwidows.co.uk/ncvo), contact us on 0845 357 8910, or email us at [ncvo@lucasfettes.co.uk](mailto:ncvo@lucasfettes.co.uk).

## JUNIOR ISAS

Tax free children's savings accounts, known as 'Junior ISAs', were launched on 1st November 2011. The new accounts will offer parents a tax free way to save for their children's future.

The key features of the Junior ISA are:

- children living in the UK who do not have a Child Trust Fund account will be able to have a Junior ISA
- people will be able to put money into a cash account or 'stocks and shares' account
- each child will be able to have one cash and one 'stocks and shares' Junior ISA at any one time
- there will be an overall total yearly limit of £3,600 for all payments into these accounts
- accounts will automatically become adult ISAs when the child is 18.

Contact us on 0845 357 8910 or at [isa@lucasfettes.co.uk](mailto:isa@lucasfettes.co.uk) for more information.

## ADDING VALUE THROUGH SERVICE

**Lucas Fettes specialise in providing insurance solutions to individuals who require a highly personalised service.**

Would your insurance policy be able to replace your treasured possessions if anything happened to them and does your home insurance include these items?

Are you one of the 25% of the UK who do not have adequate insurance for their most treasured possessions?



Lucas Fettes specialise in providing insurance solutions to selected individuals who require a highly personalised service.

We understand discerning clients and have a depth of knowledge and experience when arranging tailored insurance solutions.

Our insurance professionals genuinely understand the true nature of our client's insurance requirements, enabling them to provide tailored solutions to suit individual needs.

### OUR INSURANCE SOLUTIONS

We understand that with period properties, antiques and other high value items it is of paramount importance that your specific needs are catered for and in the event of a claim, the restoration, repair or replacement is undertaken by a specialist.

Our solutions offer wide ranging cover and a claims service that allows our clients to use the suppliers and contractors that suit their needs. Many of the insurers we use will provide free valuations for buildings, contents and fine art.

We also understand that with the pressures and pace of modern life, it is sometimes easy to overlook security i.e. forget to set your alarm. We arrange policies which are not subject to alarm conditions and, in addition, we can offer access to security specialists and provide advice and guidance on security measures. Sometimes simple solutions such as videoing / photographing your valuables and storing these securely away from your home can facilitate a claims process.

Our solutions also include extra covers such as Identity Fraud, Family Protection and Legal Expenses.

### WHAT WE INSURE

We are able to arrange a wide range of insurances including:

- Buildings, including period and thatched properties
- Contents, including antiques and fine art
- Holiday homes (UK and abroad) and investment properties
- Motor, including classic cars
- Yachts and motor boats
- Private Aviation
- Travel
- Equine and pets

### CONTACT US

For more information on our services or for a review of your existing insurance portfolio, please visit our website, email us at [lfp@lucasfettes.co.uk](mailto:lfp@lucasfettes.co.uk) or call 0845 357 8910.

# INVESTMENT UPDATE

Provided in conjunction with Prospect Wealth Management

- Outcome of eurozone discussions will determine path of global economic growth in 2012.
- The huge cost of Euro break-up is well understood but the obstacles to a solution are large.
- Bond yields are at historic lows and offer little value unless the West sinks into deflation.
- Equity markets direction is dependent on the outcome of eurozone deliberations.
- Alternative investments have provided a safe haven and should continue to do so.



## EQUITIES FALL ON EURO CRISIS

Equity markets fell sharply in August as the global economic news deteriorated a little and, more significantly, the European debt crisis moved closer to precipitating a breakup of the euro. A euro break-up would have such disastrous consequences for both the debtor nations of the Mediterranean and the creditor nations of northern Europe, that an 11th hour resolution has always seemed the most likely outcome.

Over the past month though, the willingness of Germany to provide finance and the legality of the mechanisms for channelling funds to Italy and Spain have both been brought into question. A recent ruling from the German Constitutional Court means the raising of rescue finance by issuing bonds guaranteed by the euro zone as a whole would only be possible after a German referendum.

Greece is not helping by backsliding on its commitments to raise taxes and cut spending, in the face of a crushing recession. In response, the European Financial Stability Facility is threatening to withhold the next €8bn tranche of financing, without which Greece will be unable to pay its public employees. Whether the creditor nations will be able to force Greece to change the habits of decades and create a sustainable fiscal regime remains to be seen.

It is already accepted that a large part of Greece's debt will have to be written off for the country to return to growth. This, however, can be managed within the resources of the EFSF and the wider European banking system. What would not

be so easily managed would be the exit of Greece from the euro. Not only would that lead to far greater banking write-offs as the new Drachma devalued, but it would be difficult, if not impossible, to prevent contagion to other vulnerable countries, including Spain and Italy.

With Europe teetering on the brink of disaster, it was not surprising equity markets sold off sharply and money flowed to the safe havens of US, UK and German government bonds and gold.

## THERE IS A SOLUTION

The situation is not without hope though. The next interest payment on Greek sovereign debt is not until December and by then the Greek government may well have been pressurised into reform. The other threat to the euro is that Spanish and Italian bond yields rise to unaffordable levels and force a default on their sovereign debt. To prevent this, the European Central Bank must be prepared to extend its purchases of their bonds indefinitely. This will involve printing money, but at a time when inflationary pressures are low this can be justified given the dire consequences of an Italian default - bank failures across Europe leading to inevitable recession. Of course, this strategy depends on the agreement of the committee members of the ECB. However, since this is now the only way of saving the euro in the short term, we expect monetary discipline to be sacrificed in the interests of survival.

## ECONOMIC GROWTH FALTERING

In the longer term, economic growth is essential to bring debt down to manageable levels. In the last two months

though, most economic indicators have been deteriorating. Industrial production in the major economies has fallen back to zero annual growth. The International Monetary Fund has cut its forecast for economic growth this year to 1.5% for the US and 1.1% for the UK, compared to 3.1% and 1.8% respectively just six months ago. It appears that a high oil price, the shock of slowdown in Japan in the second quarter and political Gridlock in the US and Europe has thrown the global recovery off track. With consumer demand constrained by a weak housing market, high unemployment and too much debt, the recovery was always going to be fragile. Now confidence has evaporated and corporate investment has stalled.

In this environment we expect central banks to introduce new measures to inject money into the economy and governments to stimulate growth with job creating infrastructure investment. President Obama has shown the way with his American Jobs Act and we expect George Osborne, the UK Chancellor, will come up with new growth initiatives in his autumn statement at the end of November. Similar measures are needed in Europe.

Whilst we expect the authorities will act, there is an increasing risk that market events continue to move faster than politicians. Equity price momentum has turned down and whilst equities are attractively valued on current earnings forecasts, they are by no means close to the extremes of value that we saw in 2009.

## OFFICE LOCATIONS

BERKHAMSTED  
BRISTOL  
CAMBRIDGE  
CHICHESTER  
GLASGOW  
HAYWARDS HEATH  
LONDON (CITY)  
MANCHESTER  
NEWPORT (IOW)  
NORWICH

FOR LOCAL OFFICE CONTACT  
DETAILS PLEASE VISIT OUR  
WEBSITE

[www.lucasfettes.co.uk](http://www.lucasfettes.co.uk)

Lucas Fettes & Partners (Financial Services) Limited are Independent Financial Advisers authorised and regulated by the Financial Services Authority.

Lucas Fettes & Partners Limited are Independent Insurance Intermediaries authorised and regulated by the Financial Services Authority.

All references to taxation are based on our current understanding of UK Law and HMRC practice.

## HOW TO CONTACT US

If you have any questions relating to the content of this Insight publication or If you have any questions regarding how we can help you with any aspect of protecting your assets and planning for your financial future, we would be delighted to hear from you. Please contact us on:

Telephone : 0845 357 8910

Email: [LFP@lucasfettes.co.uk](mailto:LFP@lucasfettes.co.uk)

## OUR SERVICES

Our network of offices across the UK offer a comprehensive range of financial services and insurance solutions combined with specialist knowledge that is designed to meet both corporate and personal requirements.

### Financial services for corporate clients

Along with our lifetime financial planning service, Lucas Fettes Financial Services is able to provide unbiased, objective advice to corporate clients.

### Insurance services

Lucas Fettes are also one of the UK's leading independently owned insurance brokers. We are a Lloyd's accredited broker with the knowledge and expertise to provide a comprehensive range of insurance packages available in the market both for personal and business requirements.

## ARENA

FOR CORPORATE CLIENTS

Arena is our regular publication for both Insurance and Financial Services Corporate Clients. To view the latest version of Arena, please visit [www.lucasfettes.co.uk](http://www.lucasfettes.co.uk)

