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NEW LIFETIME ISA

In a move designed to encourage cradle-to-grave savings, the Chancellor sprang a surprise in his March Budget by introducing a new addition to the Individual Savings Account (ISA) range; the Lifetime ISA (LISA).

A GENEROUS BONUS

To be launched in April 2017, the main attraction of a LISA is the generous bonus of 25% on offer for savers, meaning that for every £4 they save, the government will add £1.

To qualify to open a LISA, you will need to be aged between 18 and 40 in April 2017. Any savings you put in before your 50th birthday will receive the 25% bonus from the government at the end of the tax year. There is no maximum monthly contribution; savings can be as little or as much as you like up to the annual limit of £4,000. For those who hold their account for the maximum allowable number of years and contribute up to the annual limit, this could mean they would qualify for total bonuses worth £32,000.

Savers can choose to use some or all of the money they accumulate in their LISA account to buy their first home, or keep it until they reach 60. Whichever way, provided the account rules have been met, there is no tax to pay when you take the money out.

BUYING A HOME

After you've held your LISA for 12 months, your savings and the bonus can be used towards a deposit on a first home worth up to £450,000. If you're buying with someone else, as long as they also qualify for a LISA, then you will both receive a bonus.

If you already have a Help to Buy ISA you can transfer those savings into a LISA in April 2017, or continue to save into both (subject to the overall ISA limit). However you will only be able to use the bonus from one account to buy a house.

LISAs can be saved as cash, or invested in stocks and shares.

TAKING YOUR SAVINGS LATER

You can continue to hold your LISA until you reach 60 (although you will only receive the bonus up until your 50th birthday). After your 60th birthday, you will be able to take out some or all of your savings tax-free. Whilst you can withdraw the money in your LISA at any time before you turn 60, if you do so you will lose the government bonus (and any interest or growth on this); you will also have to pay a 5% charge.

The value of investments and income from them may go down. You may not get back the original amount invested.

ISA CASH WITHDRAWAL RULES

Good news for savers – Individual Savings Accounts (ISAs) now offer added flexibility. In another move designed to encourage people to continue to save and retain the tax benefits of doing so, from April 2016, if you take money out of your ISA and replace it during the same financial year, you won't lose your tax-free entitlement.

The Chancellor announced the change in last year's Budget, saying that he believed that people should have more freedom when it comes to managing their ISA savings and should be trusted to manage their hard-earned cash themselves.

How this works

The ISA allowance is a generous £15,240 for the 2016-17 tax year, increasing to £20,000 from 6 April 2017. Previously, if you saved £10,000 into an ISA and then removed it, you would only be allowed to save a further £5,240 in the same tax year. Under the new rules, you can take the money out and put it back later in the year without losing any of your tax-free entitlement. If you put the money back in the 2017-18 tax year, then it will count as part of that year's allowance.

MILLENNIALS LEAD THE WAY IN SAVINGS

When it comes to seriously engaging with savings, it had been assumed that it was the older generation who were best at making provision for the future. This view looks set to change, not least because of the introduction of auto-enrolment pension schemes for UK employees.

Millennials, those born in the early 1980s through to the turn of the century, followed on from Generation X, who in turn had succeeded the Baby Boomers. With thousands of them eligible to join pension schemes over the next few years, their savings look set to outstrip those of previous generations.

A survey by investment managers, BNY Mellon[1], found that 77% of Millennial respondents wanted to be told the 'stark reality' of their post-retirement finances, indicating that the message about the need for adequate pension saving is getting through.

INVESTING TIME

There's growing evidence that Millennials engage with money in a different way. A survey by investment managers, BlackRock[2], showed that 45% of Millennials are more interested in investing today than they were five years ago, with many placing considerable emphasis on investments that reflect their social and environmental concerns. The research also showed that Millennials spend seven hours a month checking on their savings and investments, compared to the two hours spent by older generations.

On a more worrying note, research in the US[3] showed that 39% of Millennials choose near-cash investments to meet their long-term goals. Their views may be coloured by the financial crisis, making them cautious about taking any investment risk. However, this could pose problems when it comes to retirement; in a low interest rate environment this could mean that ultimately their pension pots could prove insufficient.

OPTIMISM AMONGST THE YOUNG

Millennials it seems are getting the savings habit and feel optimistic about the future. By contrast, only 24% of Baby Boomers are confident that they'll have enough money to last through their lifetime.

[1] BNY Mellon, Generation Lost, 2016

[2] BlackRock, 2014

[3] Bankrate.com, 2014

MACROECONOMIC FACTORS – WHAT THEY MEAN FOR INVESTORS

Chaos theory teaches us to expect the unexpected, so a butterfly flapping its wings in New Mexico could, the theory goes, cause a hurricane in China.

In a similar way, macroeconomics, the study of the economy as a whole, links together any number of indicators including employment, interest rates, inflation, productivity, political stability and market performance in an attempt to help us understand the functioning of our complicated modern economic system.

A CONNECTED WORLD

When it comes to investing, fund managers have to take these factors into account when formulating their strategy. They look for macroeconomic data that can help them buy into the right companies in the right markets at the best time to maximise returns for their investors.

So, they see that over-supply of property in China can lead to economic slowdown in Australia as the Chinese buy less of their raw materials, which in turn can affect market confidence in the FTSE 100 in the UK.

Political uncertainty like that surrounding the EU Referendum, or a Presidential Election in the US, can cause a temporary slowdown in economic output as buyers around the world postpone purchases until the outcome is known. Ageing populations in the world's developed economies mean that national resources have to be directed to sectors such as healthcare and pension provision, leaving less to be spent on infrastructure and construction. These factors explain in part the popularity of investment in emerging markets like Brazil, Russia, India and China that can offer higher returns than developed markets but carry increased risk.

ADOPTING THE RIGHT INVESTMENT APPROACH

For investors there will always be concern about the global economy. Those considering investing in today's economic climate clearly need some informed advice.

Working with your financial adviser, you can establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn. You should bear in mind that the level of return can vary from year to year, and that past performance is not a guide or a guarantee of future returns.

As ever, the fundamental key to investing is to ensure you don't invest exclusively in one asset or market. Spreading your money around the different asset classes – cash, equities, bonds and property – helps reduce your exposure to risk and volatility.

Investment requires a disciplined approach and a degree of holding your nerve if markets drop. Seasoned long-term investors have learned that markets can be volatile and will inevitably go down as well as up from time to time. They know that the worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market.

While focussing too much on short-term gains or losses is unwise, so too is ignoring your investments altogether. If you haven't reviewed your portfolio for a while, it could be time to meet with your adviser. They will be able to check that your asset allocation is still right for you and undertake any necessary portfolio rebalancing that the review throws up.

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DESPERATELY SEEKING INCOME?

Working out how to make adequate income provision in retirement is one of the most important financial decisions that today's retirees face. With many of those retiring likely to live into their 90s and beyond, it's important to make the right choices at the outset.

Current market conditions present a number of challenges for investors looking for retirement income. Firstly, historically low interest rates mean it's more difficult to generate significant levels of income from fixed-interest investments. Secondly, we're living through a period of low growth in mature equity markets around the world. Thirdly, market volatility has been a feature of world stock markets since the beginning of the year and many believe it will be a persistent theme for some time to come.

GETTING GOOD ADVICE

Faced with these challenges, it can be hard to know where to invest and how much income to take from your investments. The danger lies in taking too high an income early on and eroding capital too quickly, meaning that funds might run out too soon. A retirement income plan should ideally ensure that you cover your core costs in retirement; this may include taking out an annuity to guarantee an income stream.

Investment advisers usually counsel those looking for income in retirement to adopt a broad-based approach to their investments. They often advocate choosing a mix of investments including in the mix funds that produce not just income, but the prospect of capital growth as well. Research by Baring Asset Management[1] shows that multi-asset funds are increasingly viewed as a good choice for income. Multi-asset funds typically invest in a mix of equities, fixed interest, commercial property and other income-generating investments, and can offer lower volatility when compared to single asset funds.

It pays to talk to your adviser who has up-to-date knowledge of the right type of funds and investments that can be blended together to create a retirement income plan that will work for you.

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[1] Baring Asset Management, 2015

HAVE YOU HIT YOUR PEAK EARNINGS POTENTIAL?

Figures from the Office for National Statistics[1] show that workers can expect to reach their peak earning potential between ages 40 and 49; from then on, their incomes are likely to fall. Being aware that your earnings power could be set to decline after your 40s can be a bit of a wake-up call for your pension and savings. At this age, the dilemma for many is how to strike a balance between saving adequately for retirement, whilst meeting all the financial needs of a growing family.

PLANNING A PENSION

The average British wage is around £27,000. To replicate this in retirement you're likely to need a pension pot of more than £300,000. If you're thinking of a higher level of income in retirement, say £40,000, then your pension fund would need to be around £668,000. However, the good news is that you get valuable tax relief on your pension contributions and, due to the benefits of compound interest, even small contributions made now can make a real difference when it comes time to retire.

PROTECTING YOUR LIFESTYLE

Of course at 40 you'll have lots of calls on your money; it's likely that you'll have a mortgage and could be raising a family too. Most advisers would suggest that you have a back-up plan in place should the unexpected happen. This could include an emergency cash fund equal to six months' salary plus adequate life insurance plans in place to protect your income, mortgage and health, including critical illness cover.

This is the age at which you should think seriously about saving for big expenses that may be on the horizon such as a child's education or a daughter's wedding. You should make sure you have a Will in place too.

If this all sounds daunting, it needn't be. Your financial adviser can help you assess your needs, taking a 360° view of your finances and ensure that you have the right plans in place for your future.

[1] Office for National Statistics, 2014

SCAMS – NEW WARNINGS FROM THE FCA

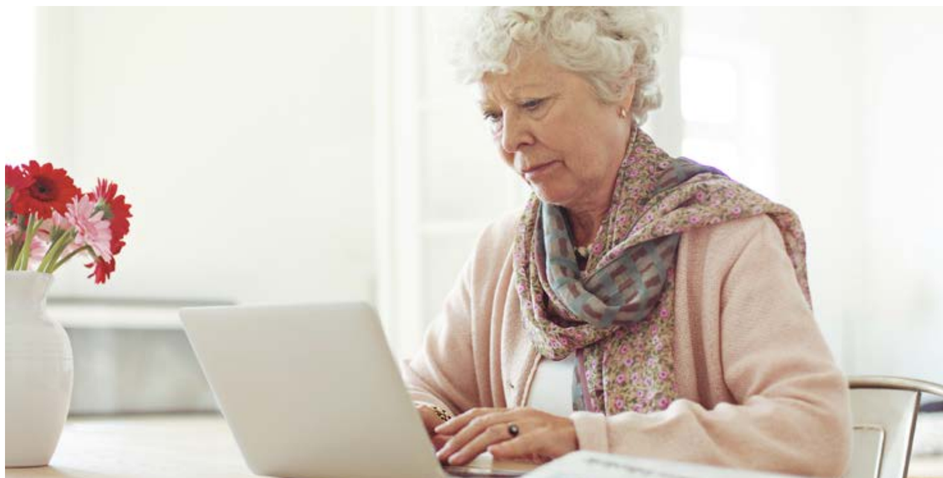
The financial watchdog, the Financial Conduct Authority (FCA) has just issued another warning on investment fraud directed at elderly people, who are increasingly targeted by criminals. Their report concluded that those aged over 65 with savings of more than £10,000 were three and a half times more likely to fall victim to investment fraud.

The FCA believes the problem could be more widespread than previously thought; its findings suggest that 60% of people who experienced investment fraud did not report it. The regulator says that those aged over 55 were often defrauded by scammers as the current low rates of interest on offer meant they were more likely to consider riskier options in the hope of a higher investment return. More than a quarter of frauds involved unauthorised firms selling unregulated investment products such as wine, diamonds and land.

Of those surveyed, 13% were unaware that unregulated products bought from unauthorised firms are not protected by the Financial Services Compensation Scheme. Despite the risks, 48% of those investing in unregulated products do so without taking advice from a professional investment adviser or checking publicly-available data such as the FCA's Warning List.

In addition to promoting bogus or unregulated investments, fraudsters often try to access a victim's pension, offering to release their funds before they reach the age of 55. The Pensions Regulator cautions that accessing pension savings before the minimum age is only possible in rare cases, such as terminal illness. It warns that pension liberation schemes 'can be fraudulent where the individuals are not informed, or are misled, as to the consequences of entering into such a scheme'. These schemes can result in tax charges and penalties amounting to more than half a member's pension savings.

TV personality Nick Hewer is supporting the FCA's ScamSmart campaign. He's been targeted himself and his advice is clear: *"When you receive a cold call, just put the phone down."*



EMERGING MARKETS AND FRONTIER MARKETS

There are a variety of terms used in the world of investment, some you may be familiar with and some less so. Whilst there's no universally-agreed definition amongst investors as to what constitutes a developed, emerging or frontier market, there are some generally-accepted views.

EMERGING MARKETS

This is the term used to describe a developing market economy which economists and fund managers expect to achieve higher investment returns, but at a greater risk. The four largest are commonly called the BRIC countries (Brazil, Russia, India and China). The next five are often considered to be South Korea, Mexico, Indonesia, Turkey and Saudi Arabia. Iran is also included in this category by some.

FRONTIER MARKETS

These are countries that have less-developed economies that are beginning to open up. Also called pre-emerging markets, they are viewed as having growth potential for the future. Fund managers acknowledge that whilst these markets can produce potentially high returns, they are less sophisticated economies, and come with a much higher degree of risk attached. Economists view around 32 countries as falling into this category with Argentina, Bulgaria, Nigeria, Pakistan and Vietnam featuring on the list.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. 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. No part of this document may be reproduced in any manner without prior permission.

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.

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