

THE ADVISER.

Mint Wealth Newsletter Issue 13 (Quarter 1, 2012)

Welcome to the latest edition of our newsletter, covering the usual wide range of financial matters.

We always welcome feedback, so please feel free to let us know what you would like to see in future editions - see contact details below.

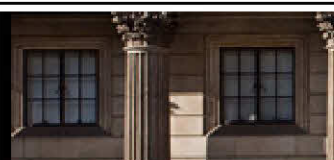
How to pay less income tax

This tax year (2011/12), every individual is entitled to earn up to £7,475 before becoming liable for any income tax. Above this you pay income tax, starting at 20%, and rising to 50% depending on how much you earn. This means you could be working up to 30 minutes in every hour, just to pay for the Government.

Consequently, most people try to minimise their liability. As dividends count as income as well as wages, one place married people could start is to re-assign any income producing investments to the lower earner. If one spouse is a higher rate tax payer but the other is not, then any income producing

investments should be in the name of the spouse earning least. This could prevent them being made liable for the full 50%. In addition to a personal allowance, you can also use the tax advantages of an ISA (Individual Savings Account). This shelters any dividends you receive from your investments from any further income tax.

You can also contribute to a pension plan - while this may not minimise your tax liabilities up front, it does enable you to earn a rebate on your contributions. For each pound of contribution, 20% is claimed as a tax rebate from the Government, meaning that you get £100 in your pension for a contribution of just £80. Indeed, if you pay higher rates of tax, subject to certain limits on earnings and investment contributions, you could get even more rebated back into your plan.



Planning for success

No 7. BE PREPARED FOR COMPROMISE

In any relationship or family, there is always a degree of compromise. If you have young children, the compromises will probably be even more obvious - and as in life, so in financial planning. If you have a young family, they probably need protection against the loss of your income or support more than they need that new car. If you like to take risks but your partner prefers a bit of safety, you need to agree a broader investment plan than perhaps horse racing. More seriously, however, it is simply important to be open with those who rely on you and make sure they will be looked after should something unexpected ever happen.

Contact Us:

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management

Pensions implications

The Autumn Statement from chancellor of the Exchequer George Osborne contained only a few measures relating to pensions and retirement, with the UK's projected £33bn overspend and the resulting extension of the government's austerity measures offering little room for manoeuvre, particularly in terms of positive news.

On the plus side, the full basic state pension will rise to £107.45 a week in April 2012 – however, the state pension age will increase to 67 between April 2026 and April 2028. Research by PWC suggests this increase in the state pension age will cost a 50-year-old £80 per month if they have to fill in these missing two years themselves while a 35-year-old would have to save an additional £35 a month to retire at the same time. This delay in the state pension age is expected to save around £60bn in today's prices between 2026/27 and 2035/36.

Osborne also introduced a new scheme to help finance infrastructure investment in the UK that may indirectly affect a number of retirees. He is aiming to raise £20bn from UK pension funds to invest in infrastructure projects with a view to boosting the economy.

UK pensions funds have, to date, been reluctant investors in infrastructure, in spite of the long-term, index-linked income stream available on some of these projects. Principally this has been down to a lack of expertise in the asset class. A number of commentators have suggested that – if successful – this infrastructure spending plan should provide an effective economic stimulus.

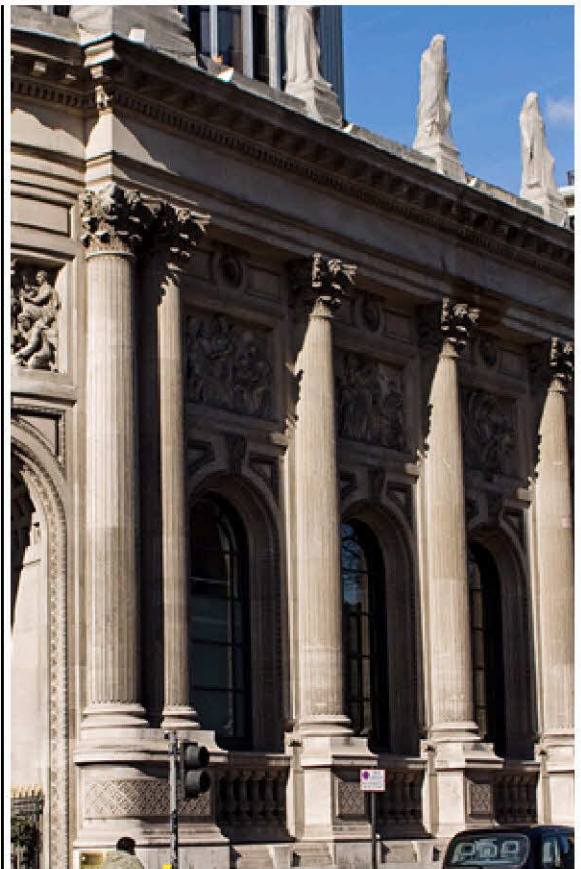
Use it or lose it

The Individual Savings Account (ISA) is a rare opportunity which the Government offers you to shelter your money from the tax man. For every pound you put in, you pay no further personal tax on any profits earned and do not even have to declare its existence to the tax man. This tax year (2011/12), you can invest up to £10,680. However, the tax year can fly by, so you need to make sure you act early or you lose the year's opportunity forever.

Of the £10,680, up to £5,340 can be invested into cash - on deposit with a bank or building society or via cash funds. The rest can be invested in the much more volatile world of stocks and shares - or a funds of stocks and shares, the latter of which will at least spread your risk a bit further given that the value is at risk in this area and it is possible you may not get back the amount you originally invest.

ISAs are available for lump sum investment but also for regular savings. Whatever you choose to do, however, the deadline is approaching and you therefore need to start planning to make sure you can take full advantage. Of course, you do not have to use the whole allowance - but if you can, or if you have investments elsewhere that could be transferred over, sheltering them within an ISA does provide a more tax efficient way to hold on to any gains you do make.

Please note: the exact tax benefits of ISAs vary depending on your circumstances and are subject to change.



Retiring unhurt?

Since 2004, the number of Britons aged over 85 has risen by two-thirds, and demand for care has outstripped supply. The UK's elderly population will continue to expand. In response, the coalition government set up the Commission on Funding of Care & Support – headed by economist Andrew Dilnot – to undertake an independent review of the cost and funding of social care in England.

The Dilnot Report found that the current system is “unfair and unsustainable”, and called instead for a form of collaboration between the state and the individual. It recommended that the means-tested threshold – above which individuals are liable for the cost of residential care – should be. The system should be national and portable, in order to ensure that those who move house are not disadvantaged. In addition, the Dilnot Report proposes that the value of the person's home should only become a factor if they move into a residential care home.

At present, according to the Dilnot Commission, one in four people will spend little or nothing on social care. Half will spend more than £20,000, and one-quarter will spend more than £50,000. One in 10 will spend more than £100,000. Looking ahead, insurance companies are expected to step into the breach and offer solutions to help individuals and advisers to plan ahead. It is difficult for individuals to forecast the cost of their future needs, but it is important to consider how you are going to fund the cost of any care that falls below the recommended cap.

Cautiously optimistic for 2012

James Bedingfield, Senior Investment Director at Investec Wealth & Investment, reviews a volatile 2011 for markets and looks forward at opportunities in 2012.

Financial markets entered 2011 with a great deal of optimism, as it appeared that the global economy was continuing its recovery from the 2008 financial crisis, with the corporate sector in a strong position to build the foundations for self-sustaining economic growth. Indeed, risk assets performed well in the first half of the year, despite a spike in oil prices following the 'Arab Spring' and the disruption to global supply-chains caused by the Japanese earthquake/tsunami.

However, investor sentiment turned sharply negative during the summer months, driven by the deterioration of political order in both the US and the Eurozone. The S&P downgrade of US credit following the debt ceiling debacle, the first in American history, highlighted the growing political divergence between Republicans and Democrats. Weaker than expected economic data from the US also raised fears that the world's largest economy was losing momentum. Meanwhile in the Eurozone crisis, the sovereign debt crisis began to spread from the periphery to the core, as policymakers failed in their efforts to build a protective firewall. Confidence in bond markets collapsed, together with economic performance, raising the probability of a recession in the Eurozone and possibly beyond.

There is no question that the outlook for 2012 is riddled with uncertainty, although we would note that compared to 2008, the solutions are more obvious. Much will depend on how the situation in the Eurozone evolves and the ability of policymakers to restore confidence in the region. Recent developments have been generally positive: The European Central Bank (ECB) has reversed interest rate hikes from earlier in 2011 and pledged additional support to the Eurozone banking system, through unlimited multi-year financing. There is also evidence that Eurozone nations are gradually moving towards establishing a closer 'fiscal union', which should help to increase credibility and potentially pave the way for the joint issuance of Eurozone bonds. However, given that the Eurozone crisis is one related to the liquidity, rather than the solvency of sovereign states (perhaps with the exception of Greece), the obvious near-term solution would be for the ECB to take on the role of Lender of Last Resort and follow the Federal Reserve and the Bank of England on a programme of Quantitative Easing (QE). To the frustration of investors, political ideologies currently stand in the way of such measures, although the ECB has shown in the past that it can turn course very quickly – a recession in the Eurozone this year, combined with more sustainable fiscal policies implemented in the periphery, which adhere to the rules of the single currency area, could be the catalyst.

Beyond the Eurozone, there appear several reasons for investors to be optimistic going into 2012. One bright spot recently has been the performance of the US economy. US real GDP grew at an annualised rate of 1.8% in Q3, the fastest pace since Q4 2010 and would have been stronger, had it not been for a material fall in inventories (which should be reversed in Q4, during which it is expected that the real GDP growth rate reached circa 3%). The US labour market has proven resilient and there are finally signs that the US housing market is stabilising. With regards to monetary policy, the US central bank has commitment to near zero interest rates until the middle of 2013, and the door has been left open for QE3. Meanwhile on the fiscal front, Republicans and Democrats recently agreed to extend payroll tax cuts and unemployment benefits for the first two months of 2012 and it is highly probable that these policies will be continued for the rest of the year, amounting to over \$200bn in fiscal stimulus during 2012.

Provided that wider fallout in the Eurozone is avoided, the outlook for the developing world also appears favourable. China should continue to act as the engine for the world economy and is expected to grow by 8-9% this year, accounting for around a third of global GDP growth in 2012. Monetary policy has room to ease in both China and other emerging economies - The Reserve Requirement Ratio (RRR) for Chinese banks was reduced at the end of last year, the first reduction lower in the RRR in almost 3 years, and interest rate cuts have already been observed in other countries, such as Brazil. The large surplus held by these nations also provides scope for additional fiscal stimulus in the event of a potential slowdown – Chinese authorities have approximately \$3.2trn in foreign exchange reserves at their disposal. With a change in Chinese leadership due to take place this year and the 2011 'Arab Spring' fresh in the mind, it will surely be in the interest of the new regime to prioritise economic growth, in order to limit the potential for social upheaval in 2012.

Investors rightfully remain wary heading into 2012. The high levels of volatility and uncertainty observed in financial markets during 2011 are likely to persist for some time and the Eurozone crisis continues to pose a systemic threat to the global economy. However, this is not a new issue for markets to contend with and arguably, a great deal of pessimism has already been 'priced in'. European policymakers have recently shown that they are more committed than ever to resolving the crisis and markets are beginning to realise that working towards a solution will take considerable time. With the outlook for the US and the developing world more positive, and corporate balance sheets robust and profitability high, despite an uncertain political and economic environment, once the clouds clear over the Eurozone (probably in Q2), there should be good reason for investors to feel more positive about 2012.

