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INFORMED

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by Clayden FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

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David Bowie's estate planning could be a lesson to us all

NAVIGATING UNCHARTED WATERS

THE IMPACT OF FURTHER PENSION CHANGES ON THE HORIZON FROM THIS APRIL

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Welcome to our **Spring issue**

The last quarter has been very busy for Clayden Financial with the pension changes and the end of the tax year, but we are all looking forward to the weather getting warmer and those lighter evenings!

The firm held a very successful seminar on 27 January in The Marriage Hall at Gotelee Solicitors, Ipswich. Private client and family solicitors from Gotelee and neighbouring firm Prettys attended excellent presentations by Canada Life's Nigel Orange and Paul Thompson on Pensions and Estate Planning.

Clayden Financial IFA Karen Last presented on auto-enrolment and pensions to local business people at Framlingham Technology Centre on 28 January. The presentation was well received, and Jenny Stockman of Framlingham Technology Centre said:

'I love it when a potentially dry but very essential topic can be covered in such an engaging and enlightening way. You were everything and more than I anticipated, and the audience interaction was testament to a perfectly pitched presentation. I really appreciate you bringing your expertise out to Framlingham, and I am so pleased that the delegate list was so full of the small businesses who so desperately need the advice.'

We hope you enjoy our Spring issue and do let us have your ideas as to subject matter for future inclusion.

Leigh Clayden

A NEW ARRIVAL

I am thrilled to announce that my daughter Gemma gave birth to a boy – Joshua Thomas Hall - on Thursday 18th February.

Gemma and husband Tom are thrilled and mother and baby are doing incredibly well.

Here is a photo of Gemma receiving a "nappy cake" from her colleagues on leaving Clayden's to go on maternity leave!

Gemma continues to handle the firm's accounts from home and we are all looking forward to seeing her back in the office.

Leigh Clayden (a very proud grandfather)

Brexit: The Financial Implications

Highlighting the uncertainty around the EU Referendum

The outcome of the In/Out EU referendum on 23 June is far from certain. The bookmakers still suggest that the 'In' campaign should prove successful, but, with months of political posturing ahead, we have been considering what the financial implications of a Brexit could be.

There have been a range of previous studies published on the subject with a wide range of potential outcomes forecast. Capital Economics were commissioned by Woodford Investment Management to examine the United Kingdom's relationship with Europe and the impact of 'Brexit' on the British economy, and their report draws a measured and neutral conclusion. The report considers several of the most important elements of the Brexit debate including immigration, trade, financial services, regulation and the public sector.

BENEFITS FOR CERTAIN INDUSTRIES

Annual net migration from Europe has more than doubled since 2012, reaching 183,000 in March 2015, boosting the workforce by around 0.5%. Currently, labour movement within the EU is free, whereas leaving the EU could allow immigration policy to be restricted and focussed on certain skill bases, which could benefit certain industries. Restriction of low-skilled worker immigration could however be detrimental to low-wage sectors such as agriculture, and could increase wage-growth and inflation.

Free trade with EU countries would be impacted. Under the Lisbon Treaty, a country leaving the EU has two years to negotiate a withdrawal agreement, and it is very likely that a favourable trade agreement would be reached in a Brexit scenario, albeit with some potential additional costs to exporters. Indeed, the ability to negotiate our own trade agreements with other non-EU countries may be favourable instead of going via the bureaucratic processes of the EU, and this could potentially offset some of the additional cost of dealing with EU members.

"ANNUAL NET MIGRATION FROM EUROPE HAS MORE THAN DOUBLED SINCE 2012, REACHING 183,000 IN MARCH 2015, BOOSTING THE WORKFORCE BY AROUND 0.5%."

SAVING ON RED TAPE

The City's position as a global financial hub is certainly helped by being part of the EU, allowing unfettered access to European markets to London-based firms. The City currently exports £19.4bn of financial services to the EU, and this would be significantly disrupted in the short term. Over the long term, the UK could broker deals with emerging markets to help allay this impact.

Saving on the red tape and regulation emanating out of Brussels is often cited as a potential positive of Brexit. This might however prove to be a smaller boost to productivity, as exporters will still need to comply to easily access the EU, and the UK may therefore decide to retain many EU rules.

Similarly, the UK's significant £10bn contribution could be saved through Brexit, but in reality this saving may not be fully felt. The economic impact in other areas may offset some of this, and indeed the Government may have additional costs in compensating certain sectors and regions that currently receive EU subsidies.

UNCERTAINTY WILL DOMINATE

In summary, the effect on the UK economy of a Brexit may not prove to be too significant in the long term. However, much will depend on how an unprecedented exit is handled and how the UK can then independently negotiate with other parts of the world.

As the vote draws ever closer, it will be interesting to see whether economic impacts draw more headlines than the current focus on political issues. However, it is hard to currently see how the debate will be dragged too far away from the emotive issue of immigration.

Until such time as the outcome is clear, uncertainty will dominate – something which will not be beneficial for financial markets. In the event of an 'Out' vote, the uncertainty will continue for some time, whereas a vote to remain in will provide some quicker clarity. This suggests that financial markets may continue to demonstrate volatility in the months ahead.

Source: All figures sourced from Capital Economics report, published February 2016 – https://woodfordfunds.com/economic-impact-brexit-report/

NAVIGATING **UNCHARTED WATERS**

The impact of further pension changes on the horizon from this April

Pensions have been transformed by the arrival of freedom reforms on 6 April 2015 which now give much greater flexibility over what you can do with your pension pot. The new freedoms mean you can enjoy far greater choice on how you spend and generate an income from your pensions, but with further changes on the horizon these are some of the key points you need to know.

STATE PENSION

The new State Pension will be a regular payment from the Government that you can claim if you reach State Pension age on or after 6 April 2016. If you reach State Pension age on or after that date, you'll get the new State Pension under the new rules.

The new State Pension is designed to be simpler. But there are some complicated changeover arrangements which you need to know about if you've already made contributions under the current system.

You'll be able to get the new State Pension if you're eligible and:

- A man born on or after 6 April 1951
- A woman born on or after 6 April 1953

If you reach State Pension age before 6 April 2016, you'll get the State Pension under the current scheme instead.

You can still get a State Pension if you have other income such as a personal pension or a workplace pension.

HOW MUCH YOU CAN RECEIVE

The full new State Pension will be starting at £155.65 per week. Your National Insurance record is used to calculate your new State Pension.

You'll usually need ten qualifying years to get any new State Pension. The amount you receive can be higher or lower depending on your National Insurance record. It will only be higher if you have over a certain amount of Additional State Pension. You may have to pay tax on your State Pension.

WORKING AFTER STATE PENSION AGE

You don't have to stop working when you reach State Pension age, but you'll no longer have to pay National Insurance. You can also request flexible working arrangements.

DEFER YOUR NEW STATE PENSION

You don't have to claim the new State Pension as soon as you reach State Pension age. Deferring the new State Pension means that you may get extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable. After you claim, the extra amount you get because you deferred will usually increase each year.

WHAT THIS MEANS FOR YOUR PENSION

Your State Pension will be lower if you've ever been contracted out of the Additional State Pension.

How this affects you depends on whether you reach State Pension age:

- Before 6 April 2016
- On or after 6 April 2016

CHANGES TO CONTRACTING OUT FROM 6 APRIL 2016

On 6 April 2016, the contracting-out rules will change so that if you're currently contracted out*:

- You'll no longer be contracted out
- You'll pay more National Insurance (the standard amount of National Insurance)

*only applies to members of contracted out defined benefit pension schemes

BASIC AND ADDITIONAL STATE PENSION

If you reach State Pension age before 6 April 2016, you can apply for both:

- The basic State Pension
- The Additional State Pension

The basic State Pension isn't affected by being contracted out. However, your Additional State Pension will be reduced according to how long you were contracted out.

YOU HAVE A WORKPLACE, PERSONAL OR STAKEHOLDER PENSION

If you were contracted out of the Additional State Pension in the past through a workplace, personal or stakeholder pension, you either:

- Paid lower National Insurance contributions
- Had some of your National Insurance contributions put towards your workplace, personal or stakeholder pension

Your starting amount for the new State Pension may include a deduction if you were contracted out in certain:

- Earnings-related pension schemes at work (for example, a final salary or career average pension) before 6 April 2016
- Workplace, personal or stakeholder pensions before 6 April 2012

You may not receive the full new State Pension when you reach State Pension age if you were contracted out.

ANNUAL ALLOWANCE

The Annual Allowance is the amount you can pay into a pension fund each year and get tax relief. From 6 April 2016, the Annual Allowance will be tapered from £40,000 for those with earnings of £150,000 or less down to £10,000 for those with income of £210,000 or more.

For this purpose, income isn't just comprised of someone's salary. It is 'adjusted' to ensure it includes personal and employer pension contributions or any other income including savings, bonuses or even an individual's buy-to-let property rental – taking many more people into a higher earnings bracket. The annual allowance will reduce by £1 for each £2 of adjusted income above £150,000 until it reaches £10,000.

If appropriate, some people if they act now could reduce their tax liability by carrying forward any leftover pension allowance from previous years or by taking advantage of the transitional Pension Input Period (PIP) which will provide the opportunity of making a total payment of up to £80,000 into their pension pot this year.

LIFETIME ALLOWANCE

The lifetime allowance will be cut from £1.25 million to £1 million from 6 April 2016 – the maximum amount people can build up in their pension pot during their lives. This is the third reduction in four years, leaving the allowance at less than half the level originally intended, when it was to be inflation-linked from 2011/12 onwards.

The lifetime allowance reduction means you need to plan carefully. After April 2016, anyone who breaks through the £1million threshold may be liable to 55% tax on any amount over the limit if the excess is taken as a lump sum. If any of the excess is instead taken as income, the tax charge is 25%, although the income itself will still be subject to Income Tax at the recipient's marginal rate.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE

DO YOU HAVE THE RIGHT RETIREMENT PLANS IN PLACE?

If you're reaching retirement and need to make sure you have the right plans in place, the countdown is on. To review your situation, please contact us – we look forward to hearing from you.

CREATIVITY IN FINANCE

David Bowie's estate planning could be a lesson to us all

It's fair to say there was no one else quite like David Bowie. He was truly one of a kind, and his music helped inspire generations of people throughout his illustrious career. However, it would now seem that he could become an inspiration when it comes to estate planning too.

TAKING CONTROL

Very few musicians enjoyed lasting careers as diverse, colourful and successful as Bowie. He remained fascinating and cutting edge until the very end in ways that extended far beyond making music.

Bowie passed away from liver cancer a mere two days after the release of his latest album, Blackstar. Knowing that his cancer was terminal, many people believe Bowie intended his last album – featuring lyrics about mortality – to be a farewell. In fact, the song 'Lazarus' begins with the line, 'Look up here, I'm in heaven,' and ends with, 'Oh I'll be free, just like that bluebird, oh I'll be free, ain't that just like me?'

Throughout the 1970s and '80s, Bowie reportedly struggled financially, even coming close to bankruptcy. He hints at his financial difficulties, again through the lyrics of 'Lazarus', singing, 'By the time I got to New York, I was living like a king, then I used up all my money.' Bowie married his second wife, Iman, in 1992 and moved to New York soon afterwards. A few years after that, he took control of his financial legacy through a move now considered to be revolutionary.

BOWIE BONDS

With the help of investment banker David Pullman, Bowie sold a stake in his catalogue of music. Instead of selling the songwriting, performance and licensing rights to his many successful songs, Pullman helped Bowie create 'Bowie Bonds'. Through these, Bowie sold – for $55 million – a 10-year investment which operated like an annuity, providing a fixed-rate of return of 7.9%. The payouts were secured by all of Bowie's royalties and copyrights from his music.

Prudential Insurance Co. of America purchased the Bowie Bonds and was paid off in full during the ten-year time frame. This is despite the change in the music industry brought about by Napster and similar Internet-based music distribution, which dramatically reduced royalties available to songwriters and performers.

FINANCIAL CREATIVENESS

Pullman was recently interviewed about the financial creativeness that allowed Bowie to achieve security for the rest of his life. Pullman said Bowie did the arrangement not to protect himself but for the benefit of his family: his wife Iman; their daughter, Alexandria (who is now 15); and Bowie's son from his first marriage, film director Duncan Jones. Pullman said that Bowie was interested in estate planning at a young age and wanted to make sure that his assets passed on to his family. He did the Bowie Bonds transaction both for tax savings and so that his estate would benefit from his music catalogue.

According to reports, Iman will likely receive the lion's share of Bowie's financial empire, which is estimated to be in the region of $200 million, before factoring in the expected spike in sales that inevitably occur when an iconic singer passes away. Bowie's two children will also each receive substantial bequests.

MAXIMISING THE VALUE OF ASSETS

At the time of going to press, the details of Bowie's estate plan have not been made public. Given the reports about Bowie's advanced planning and financial foresight, it is likely that he used one or more revocable or irrevocable trusts. If so, not only could Bowie have maximised the value of assets passing on to his heirs in the most tax-efficient manner permitted by law, but also his assets could pass privately without the public scrutiny that goes along with probate court. In other words, the public may never know the specifics of how Bowie's assets will be distributed.

Many musicians fail to do proper estate planning, often relying only on a will, which becomes a public document once it is filed with the probate court after death. Or, even worse, many have no estate planning at all. The heirs of John Lennon, Jim Morrison and Kurt Cobain all went through messy estate battles that could have been prevented if those music legends had used the same foresight as David Bowie did.

WANT TO REVIEW YOUR SITUATION

David Bowie's estate planning should serve as a lesson for us all. Follow his example and plan for your loved ones in advance – don't wait until it is too late. To arrange an appointment or to discuss any concerns that you may have in relation to making appropriate protection for you, your loved ones and your estate, please contact us – we will be happy to help.

ARE YOU READY TO **PROTECT YOUR HOME** IN SPRING AND SUMMER?

With winter hopefully behind us, thoughts turn to the longer, sunnier days ahead. Insurer RSA has put together tips for freshening things up outside, plus helpful tips for holiday-time home security. All in a handy checklist so you can enjoy a bright and breezy spring and summer, effortlessly.

GET YOUR HOME AND GARDEN SUNSHINE-READY

• Clean outside light fittings and check all bulbs are working. Opt for energy-efficient bulbs if they need replacing to reduce your electricity bill

• Give your home a little TLC by touching up paintwork, wiping down PVC windowsills and doors and re-staining the woodwork

• Repair or replace broken flagstones or paving, then bring your patios back to life with a pressure washer clean

• Clear out the leaves and debris in your drains and gutters to let those April showers flow freely away from your home

• Engage in a little garden maintenance to spruce things up a bit. Plant hanging baskets or tubs, which are great for hiding ugly features like pipes, or just prune overgrown shrubs

TIPS FOR A SAFER HOME WHILE YOU'RE AWAY

• Make your home look lived in by setting timer switches so lights, music and the television come on throughout the day and evening

• Ask a neighbour or friend to keep an eye on your home. They could park on your drive, pick up your mail or even use your bins

• Ask your family to keep quiet about holiday plans on social media, and don't change your answer machine message to tell callers you're away – simple but wise moves to avoid advertising your empty home

• Make sure your alarms and locks are working and effective. For a less expensive alternative, try fitting a dummy alarm box to act as a deterrent

• Know who to contact in case of an emergency. Keep all those useful numbers in one place so you can get in touch whenever you need to

If you are unsure about carrying out any of these checks, then please consult an appropriate and trusted tradesperson.

"MAKE YOUR HOME LOOK LIVED IN BY SETTING TIMER SWITCHES SO LIGHTS, MUSIC AND THE TELEVISION COME ON THROUGHOUT THE DAY AND EVENING"

If you would like to talk to one of our advisers about our range of personal or business insurance solutions please call the Ryan's team on 01473 343300 or visit our website www.ryans.co.uk

TAX-EFFICIENT INVESTMENTS

Options to minimise how much tax you pay

By understanding which investments are the most tax-efficient, you can make the most of your options to minimise how much tax you pay. As well as deciding what to invest in, you need to think about how you're going to hold your investments. Choosing tax-efficient investments will often mean you're able to keep a higher proportion of any returns you make.

You should always bear in mind that tax rules can change in future. What's more, the benefit to you of favourable tax treatment (such as that given to Individual Savings Accounts) will depend on your individual circumstances.

MAXIMISE YOUR ISA ALLOWANCE

UK residents aged 18 and over can invest up to £15,240 each in an Individual Savings Account (16 and over for a Cash ISA), and parents can fund a Junior ISA or child trust fund with up to £4,080 per child – making a total of £38,640 for a family of four before 6 April 2016.

If you have adult children who are planning to buy a home, it would make sense to gift funds to them so that they can invest in the new help-to-buy ISA. This became available for a four-year period from 1 December 2015 to help first-time buyers. Individuals aged 16 or over can save up to £200 per month (up to £1,200 in the first month), to which the Government will add a 25% tax-free bonus, from a minimum bonus of £400 up to a maximum amount of £3,000 on £12,000 of savings. Income and capital gains from ISAs are tax-free, and withdrawals from adult ISAs do not affect tax relief.

INSURANCE BACKED BONDS

Provided by major insurance companies, life insurance backed bonds offer relatively secure returns to investors (depending on the underlying investments). They have the added tax advantage that up to 5% of the original capital invested can be withdrawn each year with no immediate tax liability. After such withdrawals reach 100% of the original capital, Income Tax is payable on further withdrawals or on surrender of the policy. Individuals whose level of income means that they will lose their personal allowance and/or pay 45% Income Tax may now find the 5% tax-free withdrawals facility particularly attractive.

OFFSHORE BONDS

Offshore life assurance bonds allow income to accumulate virtually tax-free until they are disposed of, at which point they are taxed in full at your marginal rate. As with UK bonds, up to 5% of the original capital invested can be withdrawn each year until the original capital has been withdrawn in full with no immediate tax liability.

While the maximum rate of Capital Gains Tax remains at 28%, alternative collective investments may be more attractive for short-term investment. However, offshore life assurance bonds offer the flexibility to defer tax into a year when other income is lower, or until a year when income losses are available to offset the profits, or a year when you are not tax-resident in the UK.

EMPLOYER TAX BREAKS

If your employer offers a share scheme, there are usually price discounts and tax breaks for taking part. Where you can participate each year, plan carefully to use annual contribution limits and manage share purchases so that there is a steady flow of potential share sales in future tax years, allowing you to maximise use of your annual capital gains exemption.

Shares acquired under share incentive plans (SIPs) or sharesave (SAYE) schemes have minimum holding periods. It may not be possible to hold such shares in an Individual Savings Account, so any dividends received on the holdings will be taxable. However, from April 2016 onwards, a new dividend nil rate band will apply so that the first £5,000 of dividend income is not taxed.

It's important to obtain professional advice before entering such schemes.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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