Winter 2014/15

wealth matters.

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game changer.

The price of a barrel of Brent crude oil has declined from over US$110 in June to approximately $50 today. While price volatility is nothing new, this sharp decline is the steepest since the 2008 financial crisis and comes after the oil price has been relatively stable over the past couple of years at around $100.

Surprisingly, the media appears intent on painting a negative picture, reporting that the drop in the oil price is a worrying sign of weakness in the global economy. However, the lower oil price is good news.

Whilst global economic growth has been slow, it is certainly not weakening. The oil price decline has been led by the growth in US oil output, which has doubled over the past couple of years to just over 9 million barrels a day courtesy of the shale revolution.

The International Energy Agency (IEA) also expects US production to rise by another 1 million barrels a day over the next 12 months – which will only add to the current oversupply, which the market believes is already over 1 million barrels a day.

I believe the extent and speed of the US oil resurgence has surprised and weakened OPEC (the Organisation of Petroleum Exporting Countries), to the extent that OPEC may have lost its power to determine the oil price.

OPEC's 12 members, which supplies just over 30 million barrels of oil a day, would normally reduce supply to manage the price. However, a number of members believe they should be exempt from any cuts. For example, Iran already supplies less than its quota due to sanctions over its nuclear program; Iraq and Nigeria are both trying to fight terrorists (the Islamic State and Boko Haram respectively); Libya has an on-going civil war. And the list goes on!

Subsequently, Saudi Arabia (OPEC's largest producer at just over 9 million barrels – about the same as the US), has, in effect,

continued on page 2.

The new world

David Cassidy
Chief Executive Officer,
my wealth

"With what is set to be perhaps the most radical pension proposals of our lifetime, 2015 is expected to be the year of change. The new pension rules will bring a whole new world of choice on how to generate income in retirement, which we will all need to be prepared for. We believe that 2015 will be a very promising year for global equity markets as the lower oil prices could result in an economic boom. In the meantime, I hope you have all enjoyed the festive break and I wish you all the best for the year ahead."

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game changer.

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by Ian Copelin, Investment Director, **my wealth**

been the main influencer of OPEC for a number of years. As the main swing producer, Saudi Arabia has historically scaled back production when prices fell and increased output when prices rose.

OPEC's (aka Saudi Arabia's) decision during their meeting at the end of November to maintain production quotas, signals, I believe, that they are surrendering their role as a swing producer and price manager and, going forward, will leave the supply side to the market.

One can only speculate on the reasons for this fundamental shift: it could be a realisation that the shale revolution means that OPEC can no longer dictate the oil price; or a realisation that OPEC is made up of too many dysfunctional countries; or it could be that by letting the oil price fall (as they did in the 1980s) they hope to reduce shale exploration and production investment (not just in the US, but also in the UK and China), which in turn will result in future undersupply and thus allow OPEC to regain their leading role in the market; or is it that Saudi Arabia (and the US) is happy to see both Iran and Russia start to struggle domestically as a lower oil price will hurt their respective economies more than Western sanctions can ever do.

Whatever the reasoning, I believe that this is a fundamental shift that has wide ranging implications. In fact, I believe this is a game changer.

A lower oil price doesn't simply mean cheaper petrol pump prices. More importantly oil accounts for a large proportion of the total cost to produce all sorts of everyday products from plastics, household products and clothes, not to mention the energy to produce food (fuel, electricity, fertiliser and pesticides) and metals (energy accounts for a large percentage of a mine's operating cost and, for example, the production of aluminium).

This lower oil price is the equivalent of a massive tax cut: the US investment bank Goldman Sachs, recently estimated that US consumers will be better off by between US$100 - US$125 billion (which given the current wage squeeze and tight household budgets, will quickly boost the economy as it flows into increased spending on food, clothes and other discretionary items). A massive tax cut that doesn't have to be funded by big government spending cuts! This benefit is not just restricted to the US (the world's largest economy), a lower oil price is a windfall for all consumers and all countries that import a significant amount of crude, such as Japan, China and India.

And because the lower oil price will affect so many other goods and services, it will also further dampen consumer prices, which are already well below the targets of most global central banks.

With a threat of deflation, I believe any interest rate increases could be pushed further out (potentially to 2016). In addition, it could also be the catalyst for the European Central Bank (ECB) to follow in the steps of the US, the UK and Japan and initiate a programme of quantitative easing (QE) to help rescue their faltering economies.

Consequently, I believe that 2015 will be a very promising year for global equity markets as the lower oil price could result in an economic boom that low interest rates and QE has so far failed to deliver. MW

AUTUMN STATEMENT 2014

additional ISA benefits announced.

The Chancellor has confirmed that in addition to the pension changes announced in the Budget, he will be scrapping the death tax on pensions and from joint life and guaranteed annuities for those who die before the age of 75.

In relation to ISAs, the Chancellor also announced:

- The annual allowance will increase from £15,000 to £15,240 for the 2015/16 tax year.
- From 3 December 2014 a spouse or civil partner will be able to inherit the value of their deceased partner's ISA savings. This will be facilitated by an additional ISA allowance equivalent to the value of the deceased's ISA at date of death. This additional allowance will have no impact on the spouse's/civil partner's own ISA annual allowance.

There is no need to take any immediate action as this rule will apply to anyone who passes away from 3 December 2014. ISA funds left to a spouse or civil partner will of course continue to be free of Inheritance Tax (IHT) as the transfer will be covered by the spousal exemption. The main advantage is that the capital can remain within a tax efficient ISA wrapper. It should be noted that the combined value of a surviving partner's ISA account will ultimately be included in their own estate for IHT purposes. We await the fine details but welcome this new concession. MW

make the most of your ISA.

Your ISA allowance is one of the few tax breaks you can get as an investor. It means you don't have to pay income tax or capital gains tax on your returns. You don't even have to declare ISA returns on your self-assessment form.

The 2014-2015 annual investment allowance for an ISA is £15,000.

Don't miss out, act now and call us to book your review. MW

Make the most of your 2014/15 ISA allowance.

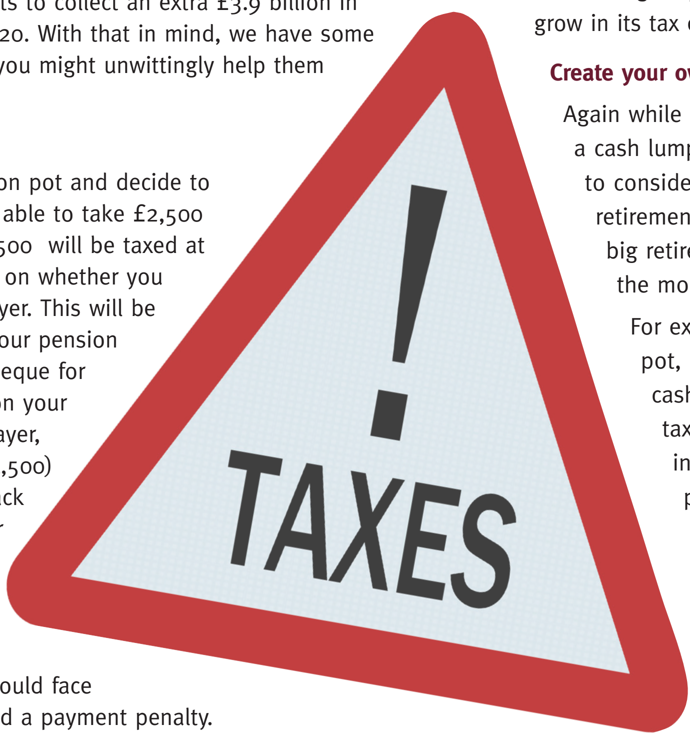
This newsletter represents the view of the writers an

pension changes: beware of tax implications.

by Paul Morton,
Investment
Planning Director,
my wealth

From April 2015, restrictions on how you can access your money purchase (AKA defined contribution) pension schemes disappear for anyone aged 55 or over. At first glance this looks to be great news for those about to retire. Entire retirement savings will be able to be taken as a cash lump sum, but it is important to realise that only 25% of this can be taken tax free and the rest is subject to income tax. Even if you are a non-taxpayer you may still have basic rate tax deducted and have to claim it back from the tax man.

HM Revenue & Customs expects to collect an extra £3.9 billion in tax from pension savers by 2020. With that in mind, we have some examples of situations where you might unwittingly help them collect it.



Lump sum tax payment

Say you have a £10,000 pension pot and decide to take it all at once, you will be able to take £2,500 tax free but the remaining £7,500 will be taxed at either 20% or 40% depending on whether you are a basic or high rate tax payer. This will be deducted at source meaning your pension company would send you a cheque for £8,500 or £7,000 depending on your tax rate. If you are a non-taxpayer, 20% still may be deducted (£1,500) and then you could claim it back from HMRC. If you are a higher rate taxpayer, your pension company may only deduct 20%, leaving you with a further 20% to pay. You must remember to pay this or you could face an unexpected tax bill later and a payment penalty.

Accidental higher rate taxpayer

If you take large amounts from your pension savings in any one tax year, you could find this amount, when added to any other income you have, pushes you into a higher tax rate bracket. For example, if you are earning £38,000 a year and have a pension pot of £42,000 and take it all in one go, only £10,500 (25%) is tax free. The remaining £31,500 is added to your other income of £38,000, which the tax man will total as an earning of £69,500 for that tax year; putting you in the higher tax rate threshold. This can be avoided by phasing pension withdrawals.

Tax efficiency, not tax temptation

Taking a cash lump sum from your pension pot to pay off debts, buy a new car or become a buy-to-let property magnate might be tempting, but if it isn't necessary then it may be best to leave it where it is.

Pension pots grow in a very tax advantaged way, with no tax on capital growth or additional tax on dividends. As soon as you take your cash from the pension wrapper it becomes subject to a range of taxes e.g. income tax or inheritance tax. Rather than taking a pension lump sum, it could be better to live off other savings if you have them, leaving your pension to grow in its tax efficient wrapper.

Create your own tax allowance

Again while the temptation to take pension savings as a cash lump sum is understandable, it is important to consider all savings and investments to maximise retirement income. Think of them as being in one big retirement account that can be drawn from in the most tax efficient way.

For example, if you have £40,000 in a pension pot, £30,000 in an ISA and £30,000 in a cash deposit account, then using the least tax efficient capital to take a lump sum or income from makes sense. You've already paid tax on your deposit savings so there's no tax to pay when you get it back. Once you've used up the deposit account, you may want to draw from the ISA as anything you take from here is free of tax and then turn to your pension pot for your remaining income. Of course your personal circumstances have a big impact on this and you would need to understand investment risk, but doing this could minimise the tax paid on income.

Don't risk ruin

The risk of ruin, the American gambling term used to describe the risk of losing all of your savings, when used to talk about pensions, is the risk of underestimating just how long retirement might last. People often underestimate how long they might live and it is difficult to manage money to achieve an income of 30 years or more without financial advice to help take into account inflation and changing income requirements throughout retirement. MW

my wealth of experience

Saiq Latif
Head of Investment Planning

MEET THE TEAM

saiq latif.

Our team of professionals with their specialist skills and knowledge are on hand to help and guide you through your investment decisions. In the spotlight in this edition, is Saiq Latif who is Head of Investment Planning.

comment

Here to help. As a valued client, you will already know that the Investment Planning team is here to help clients invest, based upon their individual requirements.

The team also create the personal investment strategy report that you would have received after your meeting. Saiq talks of his role, "I manage a team of 21 Advisers and 3 Regional Managers across the UK which means I am often on the road visiting clients as well as carrying out the day to day duties of managing a busy team. I also thrive on delivering excellent customer service and advice."

About me. "I hold a Diploma in Financial Planning and have worked in the Financial Services industry for over 20 years. I joined **my wealth** 6 years ago where I started as an Adviser and was promoted to Regional Manager and more recently to Head of Investment Planning. This career development has put me in an ideal position for enabling a deep understanding of client requirements in order to deliver results."

He adds, "Controversially, I am an Arsenal fan from Newcastle where I live with my wife and three children. I also enjoy other sports especially cricket and golf". MW

The **my wealth** website includes the latest news and information from **my wealth**, as well as market updates. Keep up-to-date with the latest news and see how we can help you invest for your future.

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your story...

Tell us about your experience of the **my wealth** service and how you plan to enjoy your retirement. To gain your chance of seeing your story appear on our website, please send your entry by email to: mywealth@wealthatwork.co.uk and add 'your story' to the subject line, or alternatively, post to WEALTH at work, 5 Temple Square, Temple Street, Liverpool, L2 5RH.

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