NEWS & VIEWS

Autumn 2013

HOLD ONTO YOUR CAP

The government has announced that it is reducing the Pensions Lifetime Allowance Limit from 6 April 2014. Lifetime pension accumulations over £1.25 million may be subject to 55% tax. Final Salary Pensions count toward the Allowance.

Applying for Fixed Protection (2014) allows you to benefit from a £1.5 million limit and avoid or reduce the tax charge but your ability to make future contributions or accumulations is restricted. There is an additional form of protection called Individual Protection (2014). This lets you apply for a personal lifetime allowance at the value of your pensions at 5 April 2014 and will allow further contributions or accumulation. To qualify, your pensions must be worth between £1.25 million and £1.5 million at 5 April 2014. Further details are expected in the coming months.

It is possible to hold both forms of protection, which you may consider if you're unsure whether you'll make further contributions. If you already have Enhanced or Primary Protection (2006) or Fixed Protection (2012), you cannot apply for Fixed Protection 2014.

Please contact us if you would like personal advice on any of these issues. This information is based on our understanding of legislation. Whether you should apply for either type of Protection will depend on your individual circumstances.

A BETTER DEAL FOR PENSION SAVERS

The Office of Fair Trading (OFT) has recommended a range of measures designed to clamp down on the £40bn-worth of UK defined contribution pension schemes that fail to deliver good value to savers. Around five million people are estimated to be saving into defined contribution pension schemes yet this could rise by a further nine million over the next five years as the process of automatic enrolment for workers gains traction. The OFT warned that many employers do not possess the “capability or incentive to assess value for money”, and this problem is likely to worsen as auto-enrolment expands.

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ON YOUR BEST BEHAVIOUR

Investors are strange creatures: they wait until the market has risen before they put money in and then sell out when the market has plunged - or worse, hold on to a floundering stock, waiting for it to get back to the value they paid for it.

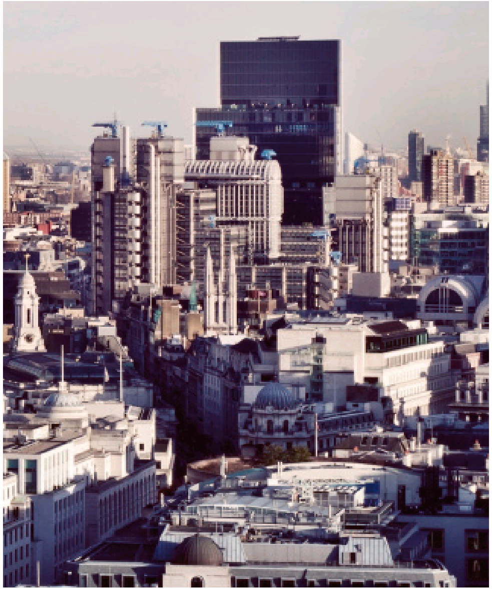
Why do we behave irrationally? We would not wait for the price of our morning coffee to go up 20% before buying it, so why do we do this with investments? Why do we panic when markets drop, even though we knew it would happen? And why do we become attached to lame ducks when selling them and moving on would get our money back quicker? Many theories abound: go back as far as the 18th century and economists such as Adam Smith were seeking an explanation of why markets behave as they do. One that has gathered force of late is behavioural finance.

Behavioural finance suggests people often make decisions based on so-called rules of thumb, rather than after rational analysis. Technically referred to as heuristics, it involves understanding that the way a problem is presented can affect the outcome (a process called framing). Therefore, market inefficiencies are not the only way to explain outcomes that go against rational expectation.

Two of the most influential psychologists in the field are Daniel Kahneman and Amos Tversky who, in 1979, published a paper comparing models of rational economic behaviour with decision-making during times of risk and uncertainty. Their theories sought to explain anomalies in the way investors and financial markets react.

These theories help explain how we all got pulled into phenomena such as the technology boom (mostly too late to make any real money), despite the irrational theories that tend to support them. They also help explain why we sell out of a falling market, just when our loss is at its greatest, and why we hold on to 'loved' investments long after they have started to go wrong. And it is why we shy away from markets that have underperformed, despite indications of great potential.

Increasingly, asset managers are using pricing models to take behavioural biases into account, as they believe it gives them an advantage. If you understand these theories, you could have that advantage too.



SWITCHING BANK ACCOUNTS

It used to be that transferring a current account from one bank to another could take up to 30 days. Under new rules that recently came into force, however it will take only seven working days and the new bank will do all the legwork – from notifying the old bank to transferring existing standing orders and direct debits. After the changeover, any payments to or from the old account will be automatically forwarded to the new account for 13 months . Above all, the new rules are designed to make customers feel more comfortable about switching.