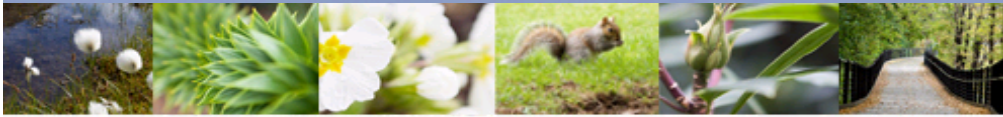


News & Views



Autumn 2011

Moving from RPI to CPI

In June 2010, the coalition government announced that, in future, state and public service pensions would increase in line with the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI). The change aims to help the government cut the UK's sizeable budget deficit.

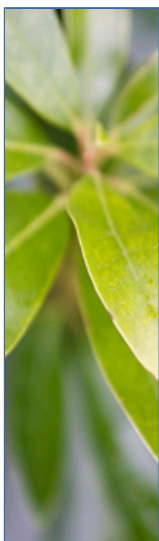
CPI does not include housing-related costs such as mortgage interest payments, buildings insurance and council tax. The rate of CPI has therefore tended to run below that of RPI in recent years and the government contends that CPI is a more appropriate measure of inflation because it strips out these costs (which are considered less relevant to pensioners who, arguably, will have repaid any mortgage by the time they retire). To ensure consistency, the government subsequently applied this ruling to occupational pensions. However, this triggered a complex debate over whether private pension schemes would be able to move to CPI. According to a survey by the National Association of Pension Funds (NAPF) published in December 2010, many such schemes have RPI indexation specifically written into their scheme rules.

The NAPF warned against any ensuing uncertainty, suggesting pension funds might find it difficult to plan ahead. In the same survey, they stated a belief that switching to CPI could increase flexibility for pension funds, but suggested the implications for current and future pensioners needed to be carefully considered to ensure the full facts were understood. Movement among pension funds was swift, however, and KPMG's 2011 Pensions Accounting Survey showing that many companies have already benefited from making the switch.



Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.



The rules of investing

No 3: INVEST WITH A LONG-TERM VIEW.

It's hard work – and largely pointless – trying to time your investment so you buy right at the bottom and sell right at the top. Similarly, trying to make short-term profits by turning over investments quickly can also prove fruitless, can get expensive - and carries a high risk. In the short term, markets are highly volatile and what happens today is no indicator for tomorrow. However, longer term, things are more predictable. Therefore, target your portfolio at appropriate, quality companies or funds and give them the time and space they need to grow.

Contact Us:

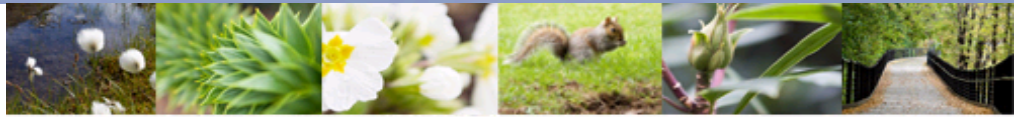
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Avoid surprises

The investment decisions you make about how to invest your pension could have a significant impact on your final income in retirement. Regardless of how wide the fund choice, however, the fundamental decision is the same: how do you blend the four main asset classes – equities, property, bonds and cash – to fit your risk versus reward balance. Equities have provided the best return over the long term, but are also the most volatile, whereas at the other end, cash preserves capital but does little to protect against inflation and offers no capital gain. It is common therefore to start with more in equities, to maximise the growth potential long term, but then switch those gains into less volatile assets as your retirement date gets closer.



Update on NEST

UK individuals who do not belong to a pension scheme could face an uncomfortable and penurious retirement. At present, not every employer provides a workplace pension scheme for workers and, even if such a scheme were available, employees are not obliged to join it. According to consumer group Which?, only 50% of UK employees were enrolled in an employer-sponsored pension scheme during 2009, and membership of pension schemes varies widely from one industry to the next. Membership of pension schemes is relatively high in sectors such as energy, financial services, manufacturing and the public sector, but is lower in areas such as construction, retail and administration.

However, from 2012, firms have to provide a qualifying pension scheme. Every employee earning more than £7,475 per year will be automatically enrolled in a scheme from October 2012 if they work for a large company and by 2016 if they work for a smaller company. Companies can set up a qualifying pension scheme of their own, or they can enrol their employees in the National Employment Savings Trust (NEST).

NEST is a major component in the government's reform of occupational pensions. Aimed at employees with low-to-moderate salaries, it is intended to provide a simple, inexpensive, accessible pension scheme that will increase individuals' savings for their retirement. NEST members will use their accumulated pension pot to buy an annuity that will provide their retirement income. NEST has selected a panel of five providers – Canada Life, Just Retirement, Legal & General, Partnership and Reliance Mutual – but members are also able to look elsewhere, although they will need to seek professional advice. A Which? pensions expert commented, "The NEST panel... offers less choice than a whole-of-market search but should deliver good outcomes to most members."

Looking ahead, a House of Commons Work & Pensions Committee has been set up to examine how automatic enrolment into NEST will work, and how it will affect smaller firms. It will also review the current ban on transfers in and out of NEST, and examine the possible effect on NEST of lower-than-expected membership. Approximately four million individuals are expected to join NEST, although they will be able to opt out after enrolment. Meanwhile, pensions consultant Hymans Robertson has warned that many employers are not preparing adequately for the cost or the implementation of the process.

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