

moneyworks

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Summer 2015



Sir James Dyson

Inside the world of Britain's greatest living inventor

The Rules of Retirement

10 financial factors to consider before retiring.

Lowering the Cost of Living

What does the inflation slowdown mean and will it last?

Budget News

What the latest budget means to you and your money.

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Dyson Images ©/ Rex Features

The dyse man

He's rumoured to be worth over £3 billion but before finding fame and fortune Sir James Dyson nearly lost it all, here he explains why he's frustrated by the lack of support for tomorrow's generation of inventors and why he wants Britain to leave the EU.

By Andrew Anthony



Dyson Images ©/ Rex Features

The life of Sir James Dyson is reminiscent of a character out of James Bond. But which character? Materially speaking, it could be the villain. After all, he appears to own half of England, or at least Lincolnshire. Twenty-five thousand acres, in fact, which puts him in front of the Queen in the English landowner stakes.

It emerged last month that Dyson bought the 3,000-acre Cranwell and Roxholme estate in Lincolnshire from the Crown Estate; he also has estates in nearby Nocton and Carrington. Then there's the baronial splendour of his 51-room Georgian pile at Dodington in Gloucestershire, not to mention a £3 million château in the south of France and a town house in Chelsea.

Added to which there's a whiff of espionage about the process of gaining an audience with him. Before we met, I had to sign a confidentiality agreement, an intimidating document written

in opaque legalese, designed to guarantee corporate secrecy and to prevent me from revealing anything to anyone, ever.

But perhaps the most Bond-villain aspect of all is the HQ of his company – the one that is, of course, named after him: Dyson. It's a vast, security-protected plant near Malmesbury in Wiltshire with a Harrier Jump Jet – a real one, not a model – sitting in the enormous and completely packed car park.

Apparently the aircraft, a British engineering classic, is there both to inspire the workforce and as a warning about what happens when a sense of purpose is lost – the vertical take-off jet suffered from a lack of funding in this country and was taken over by the Americans. But it also suggests a certain self-promoting power – look, I've got a fighter jet – of the type that evil megalomaniacs with world domination in their sights are inclined to indulge.

“ In schools and in our culture, engineering is not a profession that many people aspire to. ”



Dyson Images ©/ Rex Features

Then you step inside the hi-tech steel and glass building, walk past the company products displayed like conceptual artworks, and upstairs to Dyson's office – a glass-panelled room at the front of a massive open-plan floor. It's overflowing with examples of his creations. The Bond character who now comes to mind is Q, the gizmo wizard who kits out 007.

But would Q wear an artsy combination of a striped cardigan and blue polka-dot shirt?

There's a slightly distracted air about the billionaire industrialist that befits a gadget inventor, as though his mind is really elsewhere, figuring out how to improve engine revolutions or blade rotations.

Aspects of his personality – bold, maverick, patriotic – could certainly be described as Bond-like. He's an independent spirit with an international reputation. His licence, however, is to remove dust, not people. And rather than a Walther PPK pistol, the weapon that has brought him unimaginable riches is a Dual Cyclone bagless vacuum cleaner.

Dyson recently announced a £1.5 billion investment and expansion plan that will be focused on new products, in particular robotics. He tells me about a cleaner with vision robotics on which the company has done a lot of research work, enabling it effectively to see where it is going.

This Dyson fighting spirit has been there since the very beginning. As has his resentment of the naysayers, the "can't do" outlook of British industry, and his conviction that inventors and engineers such as himself have never gained the respect they deserve.

The story of how he invented, manufactured and sold his first vacuum cleaner is a stirring tale of stubborn determination in the face of continual setbacks, disappointment and the wrongheadedness of everyone else. Not for nothing is his autobiography entitled *Against the Odds*.

It's a story that all employees learn and one that has been rehashed countless times, not least by Dyson himself. Having realised that dust-bag vacuum cleaners rapidly lost their suction, the young Dyson set about creating his own. He went through 5,127 prototypes, mortgaged his house and risked bankruptcy before he got what he was after. And even then he had to spend years forcing his way into a market monopolised by an entrenched replacement dust bag business.

This epic "never say die" parable is recorded in a mural on a main corridor wall within the plant, and it has become both a sort of founding myth and official company philosophy. Experimentation and trial and error are positively encouraged at Dyson as the best means of reaching innovative solutions. The workforce is constantly reminded at every turn that success is the product of repeated failure. And in this respect, Dyson himself is presented as the ultimate role model.

But he insists that he never dreamt of great wealth. His ambition back in the Eighties was simply to avoid bankruptcy. As things turned out, he avoided it with room – indeed many rooms – to spare. According to *The Sunday Times* Rich List he is worth about £3 billion.

Unlike members of the super-rich who have sequestered themselves and their wealth off-shore, Dyson has stayed loyal to Britain. As much as he may carp about the low standing of manufacturers, he enjoys a largely positive public profile.

The one black spot was his decision in 2002 to move the company's manufacturing to Malaysia. He says he had no choice.

Labour costs meant that the company would have gone out of business if he kept the manufacturing arm in this country. But as a result, he argues, he has been able to expand the design, research and development side.

Designing and building the new products promised in the £1.5 billion investment scheme will mean employing many more engineers but according to Dyson, Britain isn't producing them, or at least not in sufficient numbers. "There's about a 60,000 engineer shortage in Britain at the moment," he says. "And it's projected to be 200,000 within two years."

"The main problem is cultural," he continues. "In schools and in our culture, engineers are not people who are revered in any way. It's not a profession that many people aspire to. And neither is manufacturing, which is beyond the pale. This is because the industrial revolution wasn't created by aristocrats. It was created by the lower middle class and the middle class. And the British aspire to whatever aristocrats want. So literature, art, culture and oddly enough banking are OK for aristocrats."

“There’s about a 60,000 engineer shortage in Britain at the moment.”

When Dyson talks in this way it seems that, in spite of his own enormous wealth, he remains an angry man. All that rejection and condescension he suffered during the long years of failure and development appear to have left their mark.

It's as though his knighthood, the fact that he has the ear of prime ministers and that he is literally a household name are not enough. You feel that, deep down, he still sees himself as the plucky underdog fighting against the indifference and ignorance of the British establishment, as well as the unfair advantages of foreign multinationals. Or, more specifically, German multinationals.

Such is his fury with the big German manufacturers that he recently announced that he wants Britain to leave the EU. It's a bit of a volte-face for a man who once campaigned for our entry into the single currency. "The problem now," he protests, "is the dominance of Europe by one country, Germany, which of course benefits most from monetary union."

"They bully us," he complains. "They should leave us alone."

That may sound more like Nigel Farage than James Bond. But then, for all the magnificence of his set-up, Dyson is not a character dreamt up by Ian Fleming. He's not out to save the world. His aim is to save our labour with his consumer devices. Our man in Malmesbury belongs to a more mundane world of dust and domestic appliances, perhaps one that Graham Greene would have appreciated. Although a brilliant inventor, manufacturer and entrepreneur, Dyson is ultimately a vacuum cleaner salesman. And there's nothing wrong with that. He may just be the greatest vacuum cleaner salesman who ever lived.

The 10 most important retirement planning considerations

The idea of retirement traditionally conjures up images of cruises around the world, relaxing afternoons in the garden and doting on the grandchildren. But in recent years, retirement has begun to also carry negative connotations.



Many retirees over the past decade have found that, far from being able to relax, they have been weighed down by regret. They didn't save enough money, they made rash decisions over using their pension, or they underestimated just how long they would need their finances to last for.

If you are approaching retirement in the next few years, here are the 10 most important things you need to consider.

1 How much money will you need in retirement?

"How long is a piece of string?" might be a tempting answer to that question; but with a few simple calculations, it is possible to build up a realistic picture.

Firstly, look at your current day-to-day expenses and work out which are likely to still apply in retirement. Next, think about the extra things you want to do in retirement – such as extra holidays or taking up a hobby. You will then have a reasonable estimation of your likely retirement expenses – and, therefore, how much money you will need to cover them.

2 Are you paying enough into a pension?

There are considerable tax relief benefits to paying into a pension that can add to the value of your pot. If you are in a workplace scheme and your employer matches your contributions, you can receive extra money towards your retirement.

Yet many people only commit to paying in the minimum amount from their monthly salary, rather than the maximum they can afford. Do you know how much you are paying in? Is it worth contributing more?

3 Are you aware of how your pension is being invested?

Rather than stashing your pension contributions in a vault, your pot is invested on your behalf with the objective of growing its value.

It could be that you have been placed in your pension provider's default scheme, but this might not be as suitable for your needs compared to other available options.

4 Do you have old pension pots that are being neglected?

Most of us will change employers a couple of times over our working career, which often means that we start paying into a different pension. Even though you are no longer contributing to them, your old pension pots could still hold significant value and play a key role in your retirement.

5 Are you going to receive the full basic state pension?

Paid to you by the Government, the basic state pension can play some form of role in your future retirement plans. However, there are certain qualification criteria to meet to receive the full amount.

The Government is introducing a new flat rate pension scheme from next April, where the qualifying rules are even tighter. If you have gaps in your employment history, you could miss out on the full amount unless you take steps now.

6 Are you aware of the new pension rules?

This only applies if you have a defined contribution pension, but the reforms introduced last April could be significant in how you use your pension in retirement. In a nutshell, you will be able to access the full pot from the age of 55 with no restrictions on how you use it (although you will be taxed for withdrawing all but 25% of the pot).

Even if you are a long way from retiring and not fully thinking about how you will use your pension, you need to consider the changes now. They could impact on how you should invest during the final few years before you retire, for example.

7 What role will your savings and investments play?

By giving up work you will no longer enjoy the security of a wage. It's not just your pension that will replace this; you might envisage using your savings and investments too.

So it's very important to make sure these are working hard on your behalf. You might need to review your savings and investments now, or arrange to receive financial advice on how you could make more of them.

8 How much money will you need in retirement?

Many people retire with a mortgage not fully paid off or a large credit card balance that needs to be addressed. These bills could limit your financial capability in retirement, and force you to downgrade your expectations.

There is a strong argument to make that sorting out these debts should take priority over saving for retirement. So take a look at if you are likely to be debt-free in retirement, or if you risk having a few financial headaches.

9 What are your partner and family's retirement expectations of you?

Believe it or not, many couples experience relationship problems when they retire. February 2013 research by Skipton Building Society found that four in 10 admitted to having difficulties post-retirement.

It's so important that you and your partner go into retirement with clear expectations of what your new life will be like. Your children too may have certain hopes from you, such as helping with looking after grandchildren. Take the time out before you are retire to have these conversations, so there are no unexpected shocks.

10 Have you got a Will in place?

It's not a nice thing to think about, but the older we get the more likely it is that our time will soon come to an end. Without a Will in place, there are no guarantees that the people who matter to you will inherit what you want them to have.

It's also important to keep a Will up-to-date; for example if you are blessed with the arrival of a grandchild and wish to include them in your inheritance. Make sure that changes in your life and family situation are always reflected in your Will arrangements.

[Source] <http://www.telegraph.co.uk/news/9867597/Retirement-puts-strain-on-relationships.html>

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BUD

Government maps out the next 5 years

The first all Conservative Budget in 19 years caused some surprises with both winners and losers.

When it was announced by the Conservative Government, shortly after the May General Election, that it would be producing a summer Budget, many pundits suggested it would contain bad news for many people. The fears were that after winning a majority, and with at least five more years in power, the Government would look to implement unpopular changes, knowing they wouldn't be punished by the electoral for doing so.

As it happened, the Summer Budget – unveiled at the start of July – contained more positive news than many might have expected. And it wasn't just the wealthy who had something to cheer.

Sure, there were significant cuts to welfare benefits, and many students won't be pleased by the scrapping of maintenance grants; but in the House of Commons, a buoyant-looking Chancellor George Osborne delivered a Budget that had winners as well as losers.

The headline was undoubtedly Osborne's announcement that the Minimum Wage would increase sharply over the next five years – and there was good news for all earners. The personal tax allowance threshold is to be raised from April 2016; with the amount everyone can earn, before paying income tax, increasing from £10,600 to £11,000. The allowance had been scheduled to climb at a much slower rate on an annual basis, only reaching £11,000 in 2018.

The Government has also outlined plans to help Higher Rate Tax Payers. The amount you can earn each year, before 40% income tax applies, is to rise to £43,000 next April (up from £42,385). It's all part of a long-term Conservatives objective to increase this threshold to £50,000. According to Office of Budget Responsibility calculations, 130,000 people will be taken out of paying the higher rate of income tax from next year.

Inheritance Tax threshold raised to £1 million

Middle class families were also boosted by a major change to the rules around inheritance – eight years after Osborne first pledged to act. Inheritance Tax is levied on estates that are above £325,000 (if you are single or divorced) or £650,000 (if you are married, in a civil partnership or widowed), with 40% tax applying on everything you own above this amount.

Back in 2007 – when the Conservatives were the opposition party to a Labour Government – Osborne promised to increase the threshold to £1 million. Yet following the 2010 General Election that the Tories won, there was no change to Inheritance Tax thresholds. Unable to form a majority Government, the Conservatives found their plans were blocked by their new coalition parties, the Liberal Democrats.

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After winning a majority in the recent election – and after renewing this pledge on the campaign trail – this time Osborne has been able to act.

The result is that a new family home allowance of £175,000 per person can be added to your Inheritance Tax allowance – meaning those who are married, in a civil partnership or widowed, with estates worth less than £1 million, will not have to pay Inheritance Tax.

Pension evolution continues

To fund the Inheritance Tax threshold increases, the Government has targeted high earners. If you are earning at least £150,000 a year (including employer and employee pension contributions), the amount you can save into a pension and benefit from tax relief will reduce. Until now, everyone had a £40,000 allowance per year. But from April 2016 those earning over £110,000 per year, and who have significant employer contributions, will see their contributions taxed.

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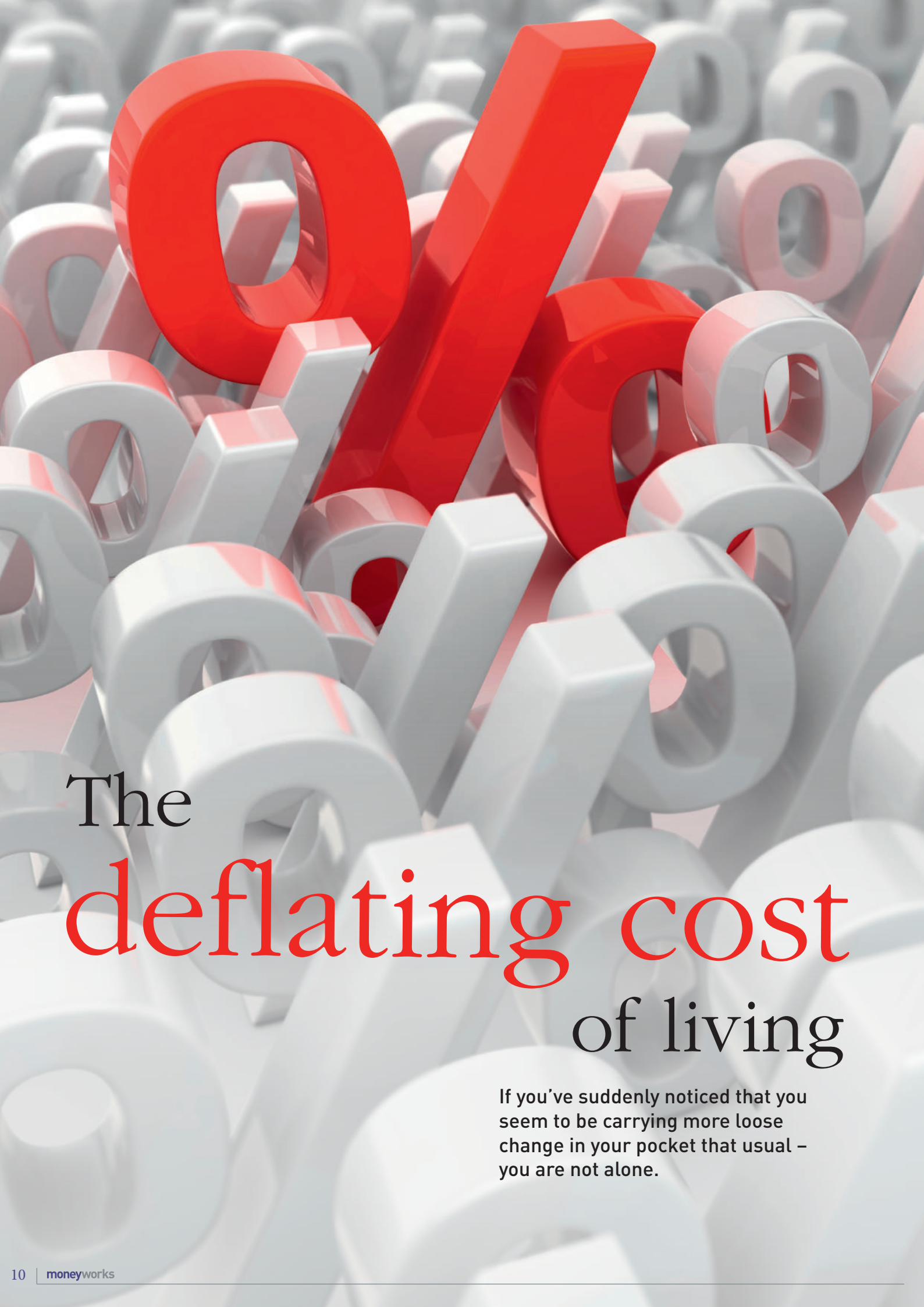
It will work like this: for every £2 of adjusted income over £150,000, the amount you can save and receive tax relief on will reduce by £1, down to a minimum of £10,000.

Another important consideration is the annual lifetime allowance for pension contributions (the amount you can save into a pension before you are taxed), which will reduce from £1.25 million to £1 million. That might still seem high, but could catch some people out. It's also worth noting that the lifetime allowance was as high as £1.8 million just a few years ago.

During his Budget speech, George Osborne revealed that he is open to “further radical change” regarding the current pension system. The Government has published a Green Paper that invites feedback on a new proposal: to make pensions more like ISAs.

It has been suggested that, instead of receiving tax relief when paying into a pension, you would pay in from your taxed income, it will grow tax-free, and it's then tax-free to withdraw from your pot in retirement. In the meantime, your pension receives a top-up from the Government.

It remains to be seen if this idea will go again and Osborne was keen to stress no decision will be made until after the consultation period. Were it to come into effect, it could prove an even more revolutionary change to pensions than the freedoms introduced last April.



The deflating cost of living

If you've suddenly noticed that you seem to be carrying more loose change in your pocket than usual – you are not alone.

Thanks to an inflation slowdown, the average UK household now has an extra £18 a week to spend on non-essential items compared to a year ago. ASDA's May 2015 research also found that the cost of household fuel bills, food, non-alcoholic drinks and vehicle fuel have all fallen over this period.

Inflation – the rate that the cost of living is rising by – has been a major consumer concern over recent years. The Consumer Price Index (CPI) is used by the Government as the official measurement of inflation, which involves tracking the cost of a basket of everyday items month-by-month. Over three years between January 2011 and December 2013, CPI averaged 3.29%.

In other words, the cost of living was on average rising by a considerable 3.29% per year. It impacted on everybody's finances – from filling up your car to the weekly food shop. And at a time when the UK economy was only beginning to recover from the global credit crunch, belt-tightening was the order of the day.

Yet CPI started to fall month-on-month over 2014, and this welcome pattern has continued into 2015. In fact, the cost of living has fallen so steeply that, in April, negative inflation was recorded for the first time since 1960 (based on Office of National Statistics comparable historic estimates). Inflation was minus 0.1% during April, before scraping back into positive territory over May (0.1%) – a huge contrast to CPI of 5.2% recorded in September 2011.

There is more good news, as wage growth in Britain reached a four-year high of 2.7% in April, according to the Office of National Statistics. Since the start of 2010, wage growth had remained below the rate of inflation. That trend was reversed at the end of 2014, with wage growth outstripping inflation once again. Hence, you have more money in your pocket after the bills are taken care of.

Little wonder then, that at the end of June marketing research company GfK was able to report that UK consumer confidence had climbed to a 15-year high.

Looking ahead

The key question is: can low inflation last? Some experts have cast a gloomy assessment on this likelihood, pointing out that the UK economy has made a slow start to the year, which they argue is likely to lead to inflation climbing and wage growth to stall once more.

Petrol prices – which fell considerably in 2014 – have slowly begun to rise again. The International Energy Agency has forecasted that worldwide demand for oil will increase over the rest of the year, which will be felt by drivers when they fill up their tanks.

That said, even if CPI was to start rising, it doesn't mean we will see a return to the pre-2013 levels. Food prices, for example, are climbing at their slowest rate in a decade, according to Kantar figures, which will limit overall inflation. The Confederation of British Industry predicted in June that the current inflation levels will continue to boost consumer spending and, with it, the UK economy.

Planning ahead

When it comes to your personal finances, low inflation is also a boost for growing your savings and investments. As recently as August 2013 (when CPI was 2.7%), there was just one savings account available that would beat inflation for a basic rate taxpayer – higher rate taxpayers stood no chance.

Now, every new bank and building society account available will beat inflation. If you have savings that are sat in a low-paying account, you should urgently look around for a better deal.

That said, for long-term financial needs, savings accounts may not be the best approach. Another side effect of low inflation is that the Bank of England may keep interest rates at the historic low of 0.5% for even longer. Back in March, the Bank of England's chief economist Andy Haldane told the BBC that base rate could even go down further, because of the growing risk that inflation will remain well below the Bank's 2% target for some time.

The knock-on effect of 0.5% base rate has been the drastic reduction in rates offered by bank and building societies. Even allowing for the fact savings account rates are now above inflation, they are still offering relatively low returns.

If you have certain goals that are a few years away, relying on savings accounts may prove unsuccessful in generating the growth you need. It's always important to keep some money stored in a savings account to cover unexpected bills, but for other needs you might need to consider other options.

Whilst it is great to have more money left over each month, now could also be an opportune time to take advantage by taking a careful and considered look at whether you could be making more of your savings and investments. That way, whatever the future holds for inflation, your future financial capability could be less tied towards it.

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“Now is an opportune time to look at making more of your savings and investments.”

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