

MERCURY

—WEALTH MANAGEMENT—

Creating, Managing and Protecting your wealth

Drawing your pension income

What the new retirement rules could mean for you

Keeping your wealth in the family

Inheritance Tax planning matters

SIPPING a retirement cocktail can pay dividends

Putting you in control of your financial future

How much life insurance do you need?

Protecting your family's financial security

ISA Surgery

Don't miss the fast approaching deadline

Making the most of your investments

Safeguarding your money at a time of low interest rates

**YOU HAVE
UNTIL 5 APRIL TO
USE THIS TAX YEAR'S
ISA ALLOWANCE
OR YOU'LL LOSE IT
FOREVER**

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Mercury Wealth Management Limited Incorporated in England Company Registration No. 4981483

Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

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Welcome

Welcome to the latest issue of our magazine, in which we consider the key financial planning topics that will help you make more of your money.

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make. As part of the new 2011 retirement rules, we consider the changes that will bring Income Drawdown and investment-linked annuity markets closer together and the removal of the forced annuitisation at age 75. On page 20 find out more about how the rule changes could impact on your retirement plans.

During these difficult economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. Not good news if you're an income-seeker, so on page 18 we consider some of the alternative income-generating options available.

In order to protect family and loved ones, it is essential to have provisions in place after you're gone. The easiest way to prevent unnecessary tax payments, such as Inheritance Tax, is to organise your tax affairs by obtaining professional advice and having a valid Will in place to ensure that your legacy does not involve just leaving a large IHT bill for your loved ones. Read the full article on page 10.

Also inside this issue, we remind you not to miss the fast-approaching Individual Savings Account (ISA) deadline – you only have until close of business on 5 April to use this tax year's allowance or you'll lose it forever. Also we consider the importance of having the correct protection strategy in place to enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. A full list of all the articles featured in this edition appears on page 03.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent finance acts. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.



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You've protected your most valuable assets.

But how financially secure are
your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Tracing a pension scheme

How to find lost or forgotten money

If you think you may have an old pension but are not sure of the details, the Pension Tracing Service may be able to help. They will try and match the information you give them to one of the schemes on their database and inform you of the results. If they have made a match they will provide you with the contact address of the scheme(s) and you can get in touch with them to see if you have any pension benefits.

They will not be able to tell you if you have any entitlement to pension benefits, only the scheme administrator can give you this information and there is no charge for using this service which typically takes about 15 minutes to complete the form.

To trace a pension scheme by phone or post the Pension Tracing Service can be contacted by calling 0845 600 2537. Telephone lines are open Monday to Friday 8.00am to 8.00pm.

The Pension Tracing Service will need to know at least the name of your previous employer or pension scheme. If you can give them the following information they will have a better chance of finding a current contact and address for the scheme:

- the full name and address of your employer who ran the occupational pension scheme you are trying to trace. Did your employer change names, or was it part of a larger group of companies?
- the type of pension scheme you belonged to. For example was it an occupational pension scheme, personal pension scheme or a group personal pension scheme?
- when did you belong to this pension scheme?

FOR OCCUPATIONAL PENSION SCHEMES:

- did your employer trade under a different name?
- what type of business did your employer run?
- did your employer change address at any time?

FOR PERSONAL PENSION SCHEMES:

- what was the name of your personal pension scheme?
- what address was it run from?
- what was the name of the insurance company involved with your personal pension scheme?

IF YOU ARE ONE OF THE THOUSANDS OF PEOPLE WHO HAVE MOVED JOBS OR HOME AND MAY HAVE LEFT BEHIND YOUR PENSION SAVINGS; CONTACT THE PENSION TRACING SERVICE AND LOCATE WHAT IS RIGHTFULLY YOURS. THE PENSION TRACING SERVICE IS A FREE AND SIMPLE WAY TO HELP FIND LOST OR FORGOTTEN PENSION MONEY.

“ If you think you may have an old pension but are not sure of the details, the Pension Tracing Service may be able to help. They will try and match the information you give them to one of the schemes on their database and inform you of the results. If they have made a match they will provide you with the contact address of the scheme(s) and you can get in touch with them to see if you have any pension benefits. ”



A matter of trust

Passing on your wealth to future generations

A trust arrangement can ensure that your wealth is properly managed and distributed after your death, so that it provides for the people who depend on you and is enjoyed by your heirs in the way you intend. There still remain significant planning opportunities, even though changes announced in the 2006 Budget in relation to the Inheritance Tax treatment of trusts will have a bearing on the use of trusts in the future.

A trust is often the best way to achieve flexibility in the way you pass on your wealth to future generations. You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away, this removes it from your estate provided you don't use it or get any benefit from it. But bear in mind that gifts into trust may be liable to Inheritance Tax.

Trusts offer a means of holding and managing money or property for people who may not be ready or able to manage it for themselves. Used in conjunction with a will, they can also help ensure that your assets are passed on in accordance with your wishes after you die. Here we take a look at the main types of UK family trust.

When writing a will, there are several kinds of trust that can be used to help minimise an Inheritance Tax liability. On 22 March 2006 the government changed some of the rules regarding trusts and introduced some transitional rules for trusts set up before this date.

A trust might be created in various circumstances, for example:

- when someone is too young to handle their affairs
- when someone can't handle their affairs because they're incapacitated
- to pass on money or property while you're still alive
- under the terms of a will
- when someone dies without leaving a will (England and Wales only)

WHAT IS A TRUST?

A trust is an obligation binding a person

called a trustee to deal with property in a particular way for the benefit of one or more 'beneficiaries'.

SETTLOR

The settlor creates the trust and puts property into it at the start, often adding more later. The settlor says in the trust deed how the trust's property and income should be used.

TRUSTEE

Trustees are the 'legal owners' of the trust property and must deal with it in the way set out in the trust deed. They also administer the trust. There can be one or more trustees.

BENEFICIARY

This is anyone who benefits from the property held in the trust. The trust deed may name the beneficiaries individually or define a class of beneficiary, such as the settlor's family.

TRUST PROPERTY

This is the property (or 'capital') that is put into the trust by the settlor. It can be anything, including:

- land or buildings
- investments
- money
- antiques or other valuable property

THE MAIN TYPES OF PRIVATE UK TRUST

BARE TRUST

In a bare trust, the property is held in the trustee's name but the beneficiary can take actual possession of both the income and trust property whenever they want. The beneficiaries are named and cannot be changed.

You can gift assets to a child via a bare trust while you are alive, which will be treated as a Potentially Exempt Transfer (PET) until the child reaches age 18 (the age of majority in England and Wales), when the child can legally demand his or her share of the trust fund from the trustees.

All income arising within a bare trust in excess of £100 per annum will be treated as belonging to the parents (assuming that the gift was made by the parents). But providing the settlor survives seven years from the date of placing the assets in the trust, the assets can pass Inheritance Tax free to a child at age 18.

LIFE INTEREST OR INTEREST IN POSSESSION TRUST

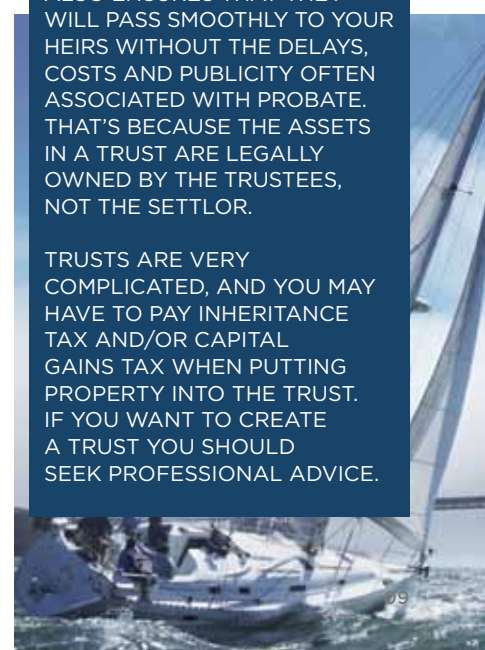
In an interest in possession trust, the beneficiary has a legal right to all the trust's income (after tax and expenses) but not to the property of the trust.

These trusts are typically used to leave income arising from a trust to a second surviving spouse for the rest of their life. On their death, the trust property reverts to other beneficiaries (known as the remaindermen), who are often the children from the first marriage.

You can, for example, set up an interest in possession trust in your will. You might then leave the income from the trust property to your spouse for life and the trust property itself to your children when your spouse dies.

With a life interest trust, the trustees often have a 'power of appointment', which means they can appoint capital to the beneficiaries (who can be from within a widely defined class, such as the settlor's extended family) when they see fit.

Where an interest in possession trust was in existence before 22 March 2006,



the underlying capital is treated as belonging to the beneficiary or beneficiaries for Inheritance Tax purposes, for example, it has to be included as part of their estate.

Transfers into interest in possession trusts after 22 March 2006 are taxable as follows:

20 per cent tax payable based on the amount gifted into the trust at the outset, which is in excess of the prevailing nil rate band

Ten years after the trust was created, and on each subsequent ten-year anniversary, a periodic charge, currently 6 per cent, is applied to the portion of the trust assets that is in excess of the prevailing nil rate band

The value of the available nil rate band on each ten-year anniversary may be reduced, for instance, by the initial amount of any new gifts put into the trust within seven years of its creation

There is also an exit charge on any distribution of trust assets between each ten-year anniversary.

DISCRETIONARY TRUST

The trustees of a discretionary trust decide how much income or capital, if any, to pay to each of the beneficiaries but none has an automatic right to either. The trust can have a widely defined class of beneficiaries, typically the settlor's extended family.

Discretionary trusts are a useful way to pass on property while the settlor is still alive and allows the settlor to keep some control over it through the terms of the trust deed.

Discretionary trusts are often used to gift assets to grandchildren, as the flexible nature of these trusts allows the settlor to wait and see how they turn out before making outright gifts.

Discretionary trusts also allow for changes in circumstances, such as divorce, re-marriage and the arrival of children and stepchildren after the establishment of the trust.

When any discretionary trust is wound up, an exit charge is payable of up to 6 per cent of the value of the remaining assets in the trust, subject to the reliefs for business and agricultural property.

ACCUMULATION AND MAINTENANCE TRUST

An accumulation and maintenance trust is used to provide money to look after children during the age of minority. Any income that isn't spent is added to the trust property, all

of which later passes to the children.

In England and Wales the beneficiaries become entitled to the trust property when they reach the age of 18. At that point the trust turns into an 'interest in possession' trust. The position is different in Scotland, as, once a beneficiary reaches the age of 16, they could require the trustees to hand over the trust property.

Accumulation and maintenance trusts that were already established before 22 March 2006, and where the child is not entitled to access the trust property until an age up to 25, could be liable to an Inheritance Tax charge of up to 4.2 per cent of the value of the trust assets.

It has not been possible to create accumulation and maintenance trusts since 22 March 2006 for Inheritance Tax purposes. Instead, they are taxed for Inheritance Tax as discretionary trusts.

MIXED TRUST

A mixed trust may come about when one beneficiary of an accumulation and maintenance trust reaches 18 and others are still minors. Part of the trust then becomes an interest in possession trust.

TRUSTS FOR VULNERABLE PERSONS

These are special trusts, often discretionary trusts, arranged for a beneficiary who is mentally or physically disabled. They do not suffer from the Inheritance Tax rules applicable to standard discretionary trusts and can be used without affecting entitlement to state benefits; however, strict rules apply.

TAX ON INCOME FROM UK TRUSTS

Trusts are taxed as entities in their own right. The beneficiaries pay tax separately on income they receive from the trust at their usual tax rates, after allowances.

TAXATION OF PROPERTY SETTLED ON TRUSTS

How a particular type of trust is charged to tax will depend upon the nature of that trust and how it falls within the taxing legislation. For example, a charge to Inheritance Tax may arise when putting property into some trusts, and on other chargeable occasions – for instance, when further property is added to the trust, on distributions of capital from the trust or on the ten-yearly anniversary of the trust. ■

BY USING TRUSTS, YOU HAVE CONTROL OVER WHAT HAPPENS TO YOUR ESTATE, BOTH IMMEDIATELY AFTER YOUR DEATH AND FOR GENERATIONS TO COME.

PLACING ASSETS IN TRUST ALSO ENSURES THAT THEY WILL PASS SMOOTHLY TO YOUR HEIRS WITHOUT THE DELAYS, COSTS AND PUBLICITY OFTEN ASSOCIATED WITH PROBATE. THAT'S BECAUSE THE ASSETS IN A TRUST ARE LEGALLY OWNED BY THE TRUSTEES, NOT THE SETTLOR.

TRUSTS ARE VERY COMPLICATED, AND YOU MAY HAVE TO PAY INHERITANCE TAX AND/OR CAPITAL GAINS TAX WHEN PUTTING PROPERTY INTO THE TRUST. IF YOU WANT TO CREATE A TRUST YOU SHOULD SEEK PROFESSIONAL ADVICE.

Keeping your wealth in the family

Inheritance Tax planning matters

In order to protect family and loved ones, it is essential to have provisions in place after you're gone. The easiest way to prevent unnecessary tax payments such as Inheritance Tax (IHT) is to organise your tax affairs by obtaining professional advice and having a valid Will in place to ensure that your legacy does not involve just leaving a large IHT bill for your loved ones.

EFFECTIVE INHERITANCE TAX PLANNING

Effective IHT planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, IHT is the tax payable on your estate when you die if the value of your estate exceeds a certain amount. It's also sometimes payable on assets you may have given away during your lifetime, including property, possessions, money and investments.

IHT is normally chargeable when assets are transferred to someone other than your spouse or registered civil partner when you die. Importantly, there is no IHT when assets are passed between spouses or registered civil partners. For this reason most IHT liabilities occur on the second death.

IHT is currently paid on amounts above the nil rate band, or Inheritance Tax threshold, which is £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2010/11 tax year. If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the IHT threshold, tax will be due on the balance at 40 per cent.

MAKING A WILL

Before you can start planning to reduce a potential IHT bill, you should decide

how you would like your estate distributed in the event of your premature death. Your instructions should be detailed in a professionally written Will, which sets out who is to benefit from your property and possessions after your death.

GIFTING MONEY

Any amount of money given away outright to an individual is not counted for IHT if the person making the gift survives for seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning. Death within the seven year period would give rise to a proportionate value of the gift being assessable to tax

If gifts are made that affect the liability to IHT and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift if death occurs between years 3 and 7 after making the gift.

Money put into a 'bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to

prevent grandchildren, for example, from having access to it until they are 18.

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the threshold are not subject to IHT but amounts over this are taxed at 20 per cent, with a potential further 20 per cent payable if the person making the gift dies within seven years.

Some cash gifts are exempt from IHT regardless of the seven-year rule. There are various tax exemptions you can make use of. For example, regular, affordable gifts from after-tax income, such as a monthly payment to a family member, are exempt as long as you still have sufficient income to maintain your standard of living.

Any gifts between husbands and wives, or registered civil partners, are exempt from IHT whether they were made while both partners were still alive or left to the survivor on the death of the first. IHT will be due eventually when the surviving spouse or registered civil partner dies if the value of their estate is more than the combined IHT threshold, currently £650,000. (This assumes the nil rate band of the first death is intact and not used elsewhere). ■

IHT CAN BE A COMPLICATED AREA WITH A VARIETY OF SOLUTIONS AVAILABLE. WITHOUT PROPER PLANNING YOU COULD END UP LEAVING A SIGNIFICANT IHT LIABILITY ON YOUR DEATH, CONSIDERABLY REDUCING THE VALUE OF YOUR ESTATE FOR YOUR CHOSEN BENEFICIARIES. TO DISCUSS HOW WE COULD HELP YOU PRESERVE YOUR WEALTH FOR FUTURE GENERATIONS, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.



SOCIALLY RESPONSIBLE INVESTING

Maintaining your ethical and environmental beliefs

Socially responsible investing is enjoying increased popularity and provides investors with a real opportunity to maintain their ethical and environmental beliefs. Socially responsible investment funds also enable socially aware investors to have their investments reflect an ethical bias by avoiding investing in companies deemed inappropriate from an ethical perspective.

More than half of British adults with investments would like to invest in green and ethical investments, according to figures from the UK Sustainable Investment and Finance Association (UKSIF). The study, run in support of National Ethical Investment Week, found that 54 per cent of people were interested in making money and doing good at the same time.

UKSIF believes these figures show ethical investing could follow fair trade consumerism in breaking out into the mainstream and suggest the ethical investment sector should be bullish about the future.

“ Effective IHT planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, IHT is the tax payable on your estate when you die if the value of your estate exceeds a certain amount. It’s also sometimes payable on assets you may have given away during your lifetime, including property, possessions, money and investments. ”

WHAT ARE YOUR OPTIONS AT RETIREMENT?

Helping you understand the options available to you

When you retire and you’ve built up a fund to provide you with enough benefits to stop working, there are a number of different choices you will be faced with, including how you then use those funds to support your ongoing lifestyle.

Some of the options are more or less flexible than others and some contain a greater or lesser level of risk. This is an extremely important decision and cannot in any way be taken lightly. We can give you more information about how to produce the retirement income that best suits your needs.



TO HELP YOU GET THE FINANCIAL ADVICE YOU NEED CONTACT US FOR FURTHER INFORMATION ABOUT OUR SERVICES.

Unit trust groups

Choosing which of the world's stock markets you want to invest in

Unit trusts are a collective investment scheme that enables you to invest money with others and participate in a wider range of investments and share the costs and benefits of doing so. They have proved popular over the years because cash is invested in a broad spread of shares, thus reducing the risk of losing money if the market falls.

Unit trusts are divided into different groups, or sectors, by the Investment Management Association. You need to decide before you start whether you are interested in receiving income from your investments, or whether you want any dividends reinvested for growth.

Then you need to choose which of the world's stock markets you want to invest in. There is a wide choice, including the UK and Europe, the USA, the Far East and various emerging markets (which include Latin America, Africa, parts of Asia and the Middle East).

Each of these markets can then be divided into the types of shares in which the fund chooses to invest.

THE MAIN FUND AREAS ARE:

UK all companies: Funds that invest at least 80 per cent of their assets in UK shares, which have a primary objective of achieving capital growth.

UK smaller companies: Funds that invest at least 80 per cent of their assets in UK stocks, which make up the bottom 10 per cent of the UK stock market in terms of size.

Japan: Funds that invest at least 80 per cent of their assets in Japanese shares.

Japanese smaller companies: Funds that invest at least 80 per cent of their assets in Japanese equities of companies, which form the bottom 10 per cent by size.

Asia Pacific, including Japan: Funds that invest at least 80 per cent of their assets in Asia Pacific shares, including some Japanese shares. The Japanese element must make up less than 80 per cent.

Asia Pacific, excluding Japan: Funds that invest at least 80 per cent of their assets in Asia Pacific shares and exclude Japanese shares.

North America: Funds that invest at least 80 per cent of their assets in North American shares.

North American smaller companies: Funds that invest at least 80 per cent of their assets in North American equities of companies, which form the bottom 10 per cent by size.

Europe, including UK: Funds that invest at least 80 per cent of their assets in European shares. They may include UK stocks, but these must not exceed 80 per cent of the fund's assets.

Europe, excluding UK: Funds that invest at least 80 per cent of their assets in European shares and exclude the UK.

European smaller companies: Funds that invest at least 80 per cent of their assets in European equities of companies, which form the bottom 10 per cent by market capitalisation in the European market. They may include UK stocks, but these must not exceed 80 per cent of the fund's assets. ('Europe' includes all countries in the FTSE pan-European indices.)

Emerging markets: Funds that invest 80 per cent or more of their assets directly or indirectly in emerging markets as defined by the World Bank, without geographical restriction. Indirect investment; for example, China shares listed in Hong Kong – should not exceed 50 per cent of the portfolio. ■

TO FIND OUT HOW WE COULD HELP YOU MAKE THE RIGHT DECISION FOR YOUR MONEY, CONTACT US FOR FURTHER INFORMATION.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.



“ Unit trusts are a collective investment scheme that enables you to invest money with others and participate in a wider range of investments and share the costs and benefits of doing so. They have proved popular over the years because cash is invested in a broad spread of shares, thus reducing the risk of losing money if the market falls. ”



Asset allocation

If you put all of your eggs in one basket, you are more vulnerable to risk

When deciding whether to invest, it is important that any investment vehicle matches your feelings and preferences in relation to investment risk and return. Hence your asset allocation needs to be commensurate with your attitude to risk. Another key question to ask yourself is: "How comfortable would I be facing a short term loss in order to have the opportunity to make long term gains?" If your answer is that you are not prepared to take any risk whatsoever, then investing in the stock market is not for you.

However, if you are going to invest, you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect to investing: shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment portfolio should be invested in different types of investment is called 'asset allocation'.

The four main asset classes are:

- Equities
- Bonds
- Cash
- Property

These asset classes have different characteristics for risk. When you are young you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long term growth. As you get closer to retirement you may want to choose more conservative investments that are steadier in both risk and return.

There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. Whilst these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio, by diversifying.

If you put all of your eggs in one basket, you are more vulnerable to risk. Different investments behave in different ways and are subject to different risks. Saving your

money in a range of assets helps reduce the loss, should one of your investments suffer a downturn.

There is also a need to diversify within each type of investment. This is especially important in the case of share and bond investing, but can even be true of cash, where the risks are generally lowest. Putting all your money in one deposit account runs the risk that the interest paid on that account will change relative to other accounts. This could mean that the interest you receive is no longer as good as when you originally invested.

It is important to remember that all investments have a degree of risk. Even choosing not to invest is risky. The key is to get the right balance. Most people need a mix of assets in order to achieve their goals. The mix required depends upon individual needs.

By spreading your investments over a wide range of asset classes and different sectors, it is possible to avoid the risk that your portfolio becomes overly reliant on the performance of one particular asset. Key to diversification is selecting assets that behave in different ways.

Some assets are said to be "negatively correlated", for instance, bonds and property often behave in a contrarian way to equities by offering lower, but less volatile returns. This provides a "safety net" by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different "styles" of investing- such as growth or value investing as well as across different sizes of companies, different sectors and geographic regions.

Growth stocks are held as investors believe their value is likely to significantly grow over the long term; whereas value shares are held since they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles which can out or under perform under different economic conditions the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it essential seek professional advise to ensure that your

investment portfolio is commensurate with your attitude to investment risk.

The important thing to remember is that with investments, even if your investment goes down, you will only actually make a loss if you cash it in at that time. When you see your investment value fall, this is known as a paper loss as it is not a real loss until you sell.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.

Whilst all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly and with more risk your investment may fluctuate more.

You should also be aware of currency risk. Currencies, for example sterling, euros, dollars and yen - move in relation to one another. If you are putting your money into investments in another country then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. Investing in cash may not beat inflation over the long term. ■

WE CAN HELP YOU MAKE INFORMED DECISIONS ABOUT THE INVESTMENT CHOICES THAT ARE RIGHT FOR YOU. STRUCTURING YOUR WEALTH IN A WAY THAT MINIMISES THE IMPACT OF THESE CHANGES IS ESSENTIAL. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

Isn't it time you had a financial review?

We'll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

ISA Surgery – don't miss the fast-approaching deadline

Individual Savings Accounts (ISAs) are not actual investments; they are tax-efficient wrappers surrounding your fund choice(s). When you make an ISA investment you pay no income or capital gains tax (CGT) on the returns you receive, no matter how much your investment grows or how much you withdraw over the years.

An ISA is an ideal way to make the most of your tax-efficient savings limit and save for the future. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future.

YOUR ISA QUESTIONS ANSWERED

Q: Am I eligible to save or invest in an ISA?

A: To save or invest in an ISA you must be:

- a UK resident
- a Crown employee (such as diplomat)
- a member of the armed forces (who is working overseas but paid by the government), including husbands, wives or civil partners
- aged over 16 years for the Cash ISA component, and over 18 years for the Stocks and Shares ISA component
- an ISA must be in your name alone; you can't have a joint ISA.

Q: What can I save or invest in an ISA?

A: You can invest in two separate ISAs in any one tax year: a Cash ISA and a Stocks and Shares ISA. This can be with the same or different providers. By using a Stocks and Shares ISA, you invest in longer-term investments such as individual shares or bonds, or pooled investments.

Q: How much can I save or invest in an ISA?

A: In the current 2010/11 tax year, you can invest a total of £10,200 into an ISA if you are a UK resident aged 18 or over. You can save up to £5,100 in a Cash ISA or up to a maximum of £10,200 in a Stocks and Shares ISA.

Q: Do I have to pay tax on my ISA?

A: An ISA is a tax-efficient investment

with no personal income tax liability on any income taken from the ISA. There is no CGT on any gains within an ISA. Interest paid on uninvested cash within a Stocks and Shares ISA is subject to a 20 per cent HM Revenue & Customs flat rate charge. Interest received in a Cash ISA is tax-free. Dividends from equities are paid with a 10 per cent tax credit which cannot be reclaimed in an ISA but there is no additional tax to pay.

Q: Can I receive a tax-efficient income from my ISA?

A: If you hold bond funds in your ISA, the income generated would be free of income tax. This could be a real benefit if you need to take an income from your investments, perhaps as you near retirement. Even if you don't want to invest in bonds at the moment, you may want to move money from equity funds into bonds in the future, perhaps when you need to take an income from your investments or if you want to reduce the level of risk in your portfolio as you near retirement.

Q: Do I have to mention my ISAs on my tax return?

A: No, you don't have to tell the taxman about income and capital gains from ISA savings and investments.

Q: Can I transfer my existing ISA?

A: If you have money saved from a previous tax year, you could transfer some or all of the money from your existing Cash ISA to a Stocks and Shares ISA without this affecting your annual ISA investment allowance. However, once you have transferred

your Cash ISA to a Stocks and Shares ISA, it is not possible to transfer it back into cash.

ISAs must always be transferred; you can't close the old ISA and start a new one in the same tax year, otherwise you will lose the tax advantage. If appropriate, you may wish to consider switching an existing Stocks and Shares ISA if you feel the returns are not competitive. But if you have a fixed-rate ISA, you should check whether you may have to pay a penalty when transferring. ■

AS WE COUNT DOWN TO THE END OF THE TAX YEAR, INVESTORS BEGIN THE SEARCH FOR THE BEST PLACE TO PUT THEIR ISA MONEY. TO FIND OUT HOW WE COULD HELP YOU MAKE THE RIGHT DECISION FOR YOUR ISA MONEY, CONTACT US FOR FURTHER INFORMATION.

**YOU HAVE
UNTIL 5 APRIL TO
USE THIS TAX YEAR'S
ISA ALLOWANCE
OR YOU'LL LOSE IT
FOREVER**

How much life insurance do you need?

Protecting your family's financial security



Having the correct protection strategy in place will enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. But choosing the right options can be difficult without obtaining professional advice to ensure you protect your family from financial hardship.

We can ensure that you find the right solutions to protect your assets and offer your family lasting benefits. It is essential that you are able to make an informed decision about the most suitable sum assured, premium, terms and payment provisions.

There are potentially three main scenarios that could put your family's financial security at risk: the death of you or your partner; you or your partner suffering from a critical condition or illness; and you or your partner being out of work due to an illness or redundancy.

We can help you calculate how much cover you may require, whether this is for capital or for income, or both. You may find that a lump sum of capital is needed to repay debt such as a mortgage or perhaps cover the cost of moving house. In addition, income may also be required to help cover your normal living expenses.

Think about how long you may require the cover and what you already have in place. We can help you review your existing policies and also take into consideration what your employer provides in the way of life insurance and sickness benefits. ■

PROTECTING YOUR FAMILY FROM FINANCIAL HARDSHIP

Whole-of-Life Assurance	Provides a guaranteed lump sum paid to your estate in the event of your premature death. To avoid Inheritance Tax and probate delays, policies should be set up and written under an appropriate trust.
Term Assurance	For capital needs, term insurance is one of the simplest and cheapest forms of life insurance. If you die during the term of a policy, a fixed amount of life insurance is paid, normally tax-free. A mortgage protection policy is a type of term insurance used to cover a repayment mortgage, with the death benefit reducing as the balance of your mortgage reduces.
Family Income Benefit	For income needs, family income benefit insurance is a worthwhile consideration. This can provide a monthly, quarterly or annual income, which under current rules is tax-free.
Critical Illness	To protect you if you or your partner should suffer from a specified critical condition or illness. Critical illness insurance normally pays benefits tax-free if you suffer from one or more illnesses, diseases or conditions specified in the policy terms. Terms can vary tremendously between providers, so it is difficult to assess your precise needs without obtaining professional advice. If you combine critical illness insurance with life insurance, claims are paid whether you die or suffer the critical illness.
Income Protection Insurance	Income protection insurance is designed to pay you a replacement income should you be unable to work due to accident, injury or illness. A replacement percentage of your income is paid until you return to work, retire or die. Rates vary according to the dangers associated with your occupation, age, state of health and gender.

“ We can ensure that you find the right solutions to protect your assets and offer your family lasting benefits. It is essential that you are able to make an informed decision about the most suitable sum assured, premium, terms and payment provisions. ”

WITH SO MANY DIFFERENT PROTECTION OPTIONS AVAILABLE, MAKING THE RIGHT DECISION TO PROTECT YOUR PERSONAL AND FINANCIAL SITUATION CAN SEEM OVERWHELMING. THERE IS A PLETHORA OF PROTECTION SOLUTIONS THAT COULD HELP ENSURE THAT A LUMP SUM, OR A REPLACEMENT INCOME, BECOMES AVAILABLE TO YOU IN THE EVENT THAT IT IS NEEDED. COORDINATE THE LEVELS OF PROTECTION YOU NEED WITH ANY BENEFITS PROVIDED THROUGH YOUR EMPLOYER, OR CONSIDER THE RANGE OF BENEFITS REQUIRED IF YOU ARE SELF-EMPLOYED. TO DISCUSS THE PROTECTION SERVICES WE OFFER, PLEASE CONTACT US FOR FURTHER INFORMATION.

Making the most of your investments

Safeguarding your money at a time of low interest rates

During these difficult economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. This is why the Bank of England has aggressively cut them.

If you are an income-seeker, much will come down to your attitude to risk for return. If you want no or very low risk, you may wish to consider a traditional cash bank account and accept that income levels are likely to remain low for the foreseeable future. However, if you're further up the risk scale you may wish to opt for some of these other alternatives.

GILTS

If you're willing to take on a slightly higher degree of risk and you need the extra income, you may wish to consider gilts (or gilt-edged stocks), which are bonds issued by the government and pay a fixed rate of interest twice a year. Gilts involve more risk than cash, because there's a chance the government won't be able to pay you back. It's highly unusual for a government to default on a debt or default on the interest payments, so they have been considered safe. But in this current economic climate, this risk increases.

You are not guaranteed to get all your capital back under all circumstances. Not all gilts are bought from the government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall. There are other types, such as index-linked gilts, which form the largest part of the gilt portfolio after conventional gilts. Here the coupon is related to movements in the Retail Prices Index (RPI) and is linked to inflation.

CORPORATE BONDS

Next along the risk scale if you are looking for a higher yield are corporate bonds. These are issued by companies and have features that are exactly the same as gilts except that, instead of lending money to the government, you're lending to a company. The risk lies in the fact that companies may go bust and the debt may not be repaid. They have a nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year, usually fixed. The value of the bonds themselves can rise and fall; however, the fact that bonds are riskier at the moment means companies are paying more in order to induce people to buy their debt. There are an increasing number of global bond funds entering the market that may enable you to get value from a lot of different markets.

EQUITY INCOME

If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money. However, for investors who are prepared to see their investments fluctuate in value while hopefully providing a stable income that grows over time, you may wish to consider equity income funds. These invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends will be your income.

GLOBAL EQUITY INCOME FUNDS

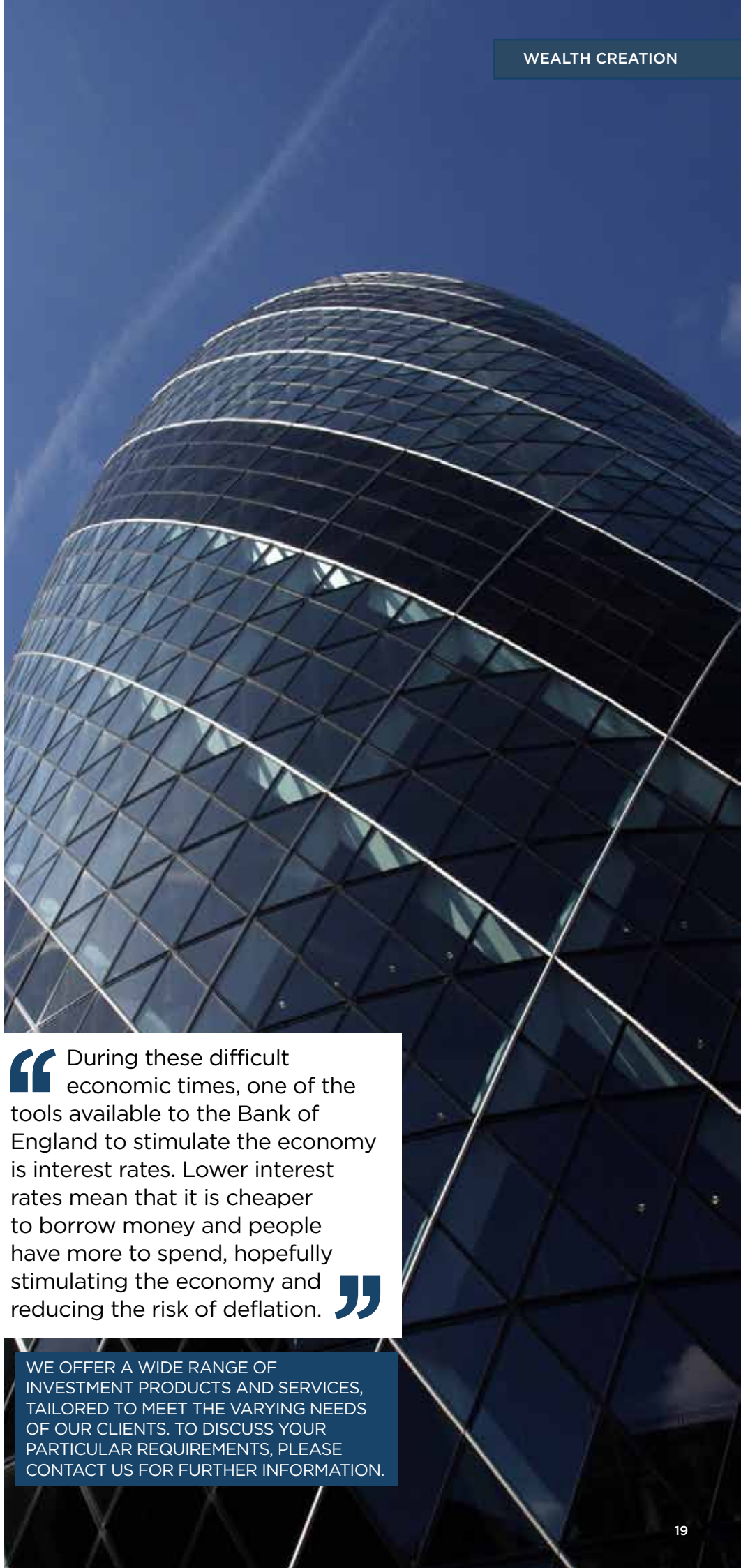
Further up the risk scale are global equity income funds. These are similar to UK funds, except that there are only a handful of the big blue-chip firms that pay reliable dividends in the UK,

whereas global diversification offers a significant range of companies to choose from. Investing in other currencies brings an added level of risk, unless the fund hedges the currency.

EQUITY INCOME INVESTMENT TRUSTS

Equity income investment trusts are higher risk but similar to other equity income investments. They are structured differently from unit trusts and open-ended investment companies. Investment trusts are closed-ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This means they also have more potential for greater returns once better times resume. Investment trust share prices are therefore often at a 'discount', or 'premium', to the value of the assets in the fund. ■

Changes in the rates of exchange between currencies may cause your investment and any income from it to fluctuate in value. The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.



“ During these difficult economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. ”

WE OFFER A WIDE RANGE OF INVESTMENT PRODUCTS AND SERVICES, TAILORED TO MEET THE VARYING NEEDS OF OUR CLIENTS. TO DISCUSS YOUR PARTICULAR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

Drawing your pension income

FROM 6 APRIL THE
MAXIMUM PENSION
CONTRIBUTION LIMIT
WILL BE REDUCED TO
£50,000 (DOWN
FROM £255,000)

What the new retirement rules could mean for you

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make. As part of the new 2011 retirement rules, from 6 April this year the pension annuity rules will change, meaning that UK pensioners will no longer be forced to use personal pension funds to buy an annuity.

FREEDOM TO CHOOSE

Investors will have the freedom to choose when and how they take their pension, with the compulsory annuity age of 75 being withdrawn. Under the new annuity purchase rules, the compulsory element will cease. From 6 April 2011, investors will be given more flexibility about how they choose to use their retirement savings. You will still be able to convert funds to an annuity if you wish, but you will also have more options such as Income Drawdown and continued pension investment.

Individuals who are already in drawdown will not be immediately subject to the new requirements; however, transitional rules will apply. If this applies to you, you'll need to adopt the new rules either at the end of your current review period or earlier if you transfer to another drawdown plan.

Investors will be able to use Income Drawdown or take no income at all from their pension for as long as they require. However, tax charges on any lump sum death payments will prevent this option being used to avoid Inheritance Tax (IHT). The rules regarding Alternatively Secured Pensions (ASPs) will be repealed; existing ASP plans will convert to Income Drawdown (currently known as Unsecured Pension, or USP) and will be subject to the new rules.

FLEXIBLE DRAWDOWN

A new drawdown, called Flexible Drawdown, will be introduced. This will allow those who meet certain criteria to take as much income as they want from their fund in retirement. It will normally only be available for those over 55 who can prove they are already receiving a secure pension income of over £20,000 a year when they first go into Flexible

Drawdown. The secure income can be made up of State pension or from a pension scheme and does not need to be inflation proofed. Investment income does not count. There will be restrictions that are designed to prevent people from taking all their Protected Rights or from using Flexible Drawdown while still building up pension benefits.

The current drawdown option after 6 April 2011 will become known as Capped Income Drawdown. The maximum income will be broadly equivalent to the income available from a single life, level annuity. This is a slight reduction on the current maximum income allowed. There will be no minimum income, even after age 75. The maximum amount will be reviewed every three years rather than every five years. Reviews after age 75 will be carried out annually. Unlike the current ASP, the income available after age 75 will be based on your actual age rather than defaulting to age 75.

DEATH BENEFITS AND TAX CHARGES

The changes to death benefits and tax charges mean that if you die while your pension fund is in either form of drawdown, or after the age of 75, all of your remaining fund can be used to provide a taxable income for a spouse or dependant. Alternatively, it can be passed on to a beneficiary of your choice as a lump sum, subject to a 55 per cent tax charge (or nil charge if paid to a charity). Previously, a tax charge of up to 82 per cent applied on lump sums paid after age 75, making it now far more attractive for people to pay into their pension and consider the IHT benefit of doing so.

Currently, a pension fund which has been 'crystallised' by using Income Drawdown

WE CAN WORK WITH YOU TO HELP YOU MAXIMISE YOUR RETIREMENT INCOME GENERATION, EXECUTE THE TRANSACTIONS NECESSARY AND ENSURE THAT YOU REMAIN ON TRACK. WITH THE INTRODUCTION OF THE NEW RETIREMENT RULES, NOW IS THE PERFECT TIME TO DISCUSS YOUR PARTICULAR SITUATION. FOR FURTHER INFORMATION, PLEASE CONTACT US.

is subject to a tax charge of 35 per cent if the member dies and any surviving spouse chooses to take the fund as a lump sum. From 6 April this will increase to 55 per cent, and applies to plans currently in force. It is also worth noting that, after age 75, this 55 per cent tax charge will apply even to funds that have not been crystallised (from which no lump sum or income benefit has been taken).

ANNUITIES

Annuities themselves have not been changed; however, the minimum age at which you can buy an annuity is age 55. An annuity will still be the option of choice for a lot of retiring investors because, unlike Income Drawdown, it provides a secure income for life. Annuities are expected to be used to secure the minimum income requirement of £20,000 to allow investors to use the rest of their pension to go into Flexible Drawdown.

From 6 April the maximum pension contribution limit will be reduced to £50,000 (down from £255,000). However, investors will benefit from tax relief at their highest marginal rate. The previous government's more complicated rules surrounding high earners and restricted tax relief will be discarded.

From 6 April 2012 the lifetime allowance will also be reduced. The full lifetime allowance will be reduced to £1.5m, down from £1.8m.

The coalition government has also brought back the carry forward rules, enabling anyone who wishes to roll up any unused contribution allowance to do so and take advantage in a future tax year. The £50,000 allowance can be carried forward for as many as three tax years. This roll-over relief comes into full effect on 6 April 2011.

Although investors will not have to annuitise pension savings from 6 April this year and could, as an alternative,

draw down income as cash lump sums, there are still rules to be followed to prevent investors running out of retirement income and becoming dependent on State benefits. ■

“ The current drawdown option after 6 April 2011 will become known as Capped Income Drawdown. The maximum income will be broadly equivalent to the income available from a single life, level annuity. ”

Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. A pension is a long-term investment. The fund value may fluctuate and can go down as well as up and you may not get back your original investment.

PARTING WITH YOUR BIGGEST ASSET

Will you meet the cost of care without having to sell up?

Some 44 per cent of couples aged between 34 and 54 fear that parting with their residential home is inevitable should one of them need domiciliary or residential care, a YouGov poll of 4,500 people found.

Additionally, 38 per cent of those aged over 55 admit they won't be able to meet the cost of care without selling up.

Last year, 20,000 pensioners were forced to sell their homes to fund care fees, undermining a lifetime of hard work, saving and paying off mortgage debt.

The report comes just weeks after official statistics showed that 10m living Britons, equating to 17 per cent of the UK population, are expected to live past 100.

Each year 130,000 older people start requiring long-term care. This could be set to increase as a generation of baby-boomers born after the Second World War approaches retirement and stays alive for longer.

Full-time residential care costs from £30,000 a year, depending on location, the quality of home and the medical care needed.

With around 18m owner-occupied houses in the UK, selling up is one of the most common ways used to free up enough money to pay for the cost of care.

Care is means-tested, so someone with assets between £14,250 and £23,250 receives help on a sliding scale. The poorest receive basic care provided by the State. In Scotland the limits are £22,750 and £14,000. In Wales there is no sliding scale; the State pays for everything once assets are less than £22,000.

IT CAN BE REALLY UPSETTING TO FIND OUT THAT AN ENTIRE INHERITANCE OR FAMILY HOME HAS TO BE USED TO FUND CARE COSTS. HOWEVER, THERE ARE A NUMBER OF WAYS TO PROTECT SOME OF YOUR WEALTH. TO FIND OUT MORE, PLEASE CONTACT US.



Investing offshore

Utilising tax deferral benefits

Investing offshore may appeal to anyone who plans to live overseas, travels extensively, or wishes to look outside of their 'home' country for investment opportunities. Depending on where you reside, there will be various options available to you. Perhaps you already have money offshore and are looking to receive a better return; or you maybe you are planning to move abroad.

For the appropriate investor there are a number of advantages to investing offshore, particularly with regards to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, a variety of savers could put offshore investments to good use.

The investment vehicles are situated in financial centres located outside the United Kingdom and can add greater diversification to your existing portfolio. Cash can also be held offshore in deposit accounts, providing you with the choice about when you repatriate your money to the UK, perhaps to add to a retirement fund or to gift to children or grandchildren. Those who work overseas or have moved abroad to enjoy a different lifestyle often want to pay as little tax as is legally possible.

Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds. This means that, if you are a higher rate tax payer in the UK, you could wait until your tax status changes before bringing your funds (and the gains) back into the UK.

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad,

you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country. The UK has negotiated treaties with most countries so that UK expats in those countries are not taxed twice. Basically, if a non-domiciled UK resident is employed by a non-UK resident employer and performs all of their duties outside the UK, the income arising is only subject to UK tax if it is received in or remitted to the UK.

Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

If you are an expatriate you should find out if you are aware of all the investment opportunities available to you and that you are minimising your tax liability. Investing money offshore is a very complex area of financial planning and you should always obtain professional advice. Currency movements can also affect the value of an offshore investment. ■

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.

ANY POTENTIAL INVESTOR WHO IS UNSURE OF THEIR TAX POSITION IS RECOMMENDED TO TAKE PROFESSIONAL ADVICE BEFORE INVESTING. FOR FURTHER INFORMATION, OR TO CONSIDER IF INVESTING OFFSHORE COULD BE APPROPRIATE TO YOUR PARTICULAR INVESTMENT OBJECTIVES, PLEASE CONTACT US.



“ For the appropriate investor there are a number of advantages to investing offshore, particularly with regards to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, a variety of savers could put offshore investments to good use. ”



SIPPing a retirement cocktail can pay dividends

Putting you in control of your financial future

YOUR QUESTIONS ANSWERED

Self-Invested Personal Pensions (SIPPs) have been around since 1989 but after the introduction of Pension Simplification legislation on 6 April 2006, they've become more accessible. If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a SIPP could be the retirement planning solution to discuss with us.

Q: What is a SIPP?

A: A SIPP is a personal pension wrapper that offers individuals greater freedom of choice than conventional personal pensions. However, they are more complex than conventional products and it is essential you seek expert professional advice. They allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf. Individuals have to appoint a trustee to oversee the operation of the SIPP but having done that, the individual can effectively run the pension fund on their own. A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

Q: How much can I contribute to a SIPP?

A: Many SIPP providers will now permit you to set up a lump sum transfer contribution from another pension of as little as £5,000 and while most traditional pensions limit investment choice to a short list of funds, normally run by the pension company's own fund managers, a SIPP enables you to follow a more diverse investment approach.

Most people under 75 are currently eligible in this tax year to contribute up to £255,000 (the maximum pension contribution limit will be reduced to £50,000 on 6 April 2011). The earnings on which you can base your contribution are known as Relevant UK Earnings. If you are employed, this would generally be your salary plus any taxable benefits. If you are self-employed, this would normally be the profit you make (after any adjustments) for UK tax purposes.

Q: Can I transfer my existing pension to a SIPP?

A: Before transferring to a SIPP it is important to check whether the benefits, such as your tax-free cash entitlement, are comparable with those offered by your existing pension. Make sure, too, that you are aware of any penalties you could be charged or any bonuses or guarantees you may lose.

Q: Where can I invest my SIPP money?

A: You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs. Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

Q: Why would I use my SIPP to invest in commercial property?

A: Investing in commercial property may be a particularly useful facility for owners of small businesses, who can buy premises through their pension fund. There are tax advantages in using the fund to buy commercial property, including no capital gains tax to pay. If you own a business and decide to use the property assets as part of your retirement planning, you would pay rent directly into your own pension fund rather than to a third party, usually an insurance company. Ordinarily, a business property will, assuming the value increases, generate a tax liability for the shareholders or partners upon an eventual sale. Unless, that is, you sell the property to your SIPP. Then the business can pay rent to your pension fund, on which it pays no tax, and any future gain on the property will also be tax-free when it is sold.

Q: When can I withdraw funds from my SIPP?

A: You can currently withdraw the funds from your SIPP between the ages of 55 and 75 and normally take up to 25 per cent of your fund as a tax-free lump sum. The remainder is then used to provide you with a taxable income. If you die before you begin





taking the benefits from your pension, the funds will normally be passed to your spouse or other elected beneficiary free of Inheritance Tax. Other tax charges may apply depending on the circumstances. The coalition government stated in the June 2010 Budget its intention to remove the requirement to purchase an annuity at age 75. This change is due to take effect from 6 April 2011. If you would like more details, please contact us for further information.

“ Self-Invested Personal Pensions (SIPPs) have been around since 1989 but after the introduction of Pension Simplification legislation on 6 April 2006, they’ve become more accessible. ”

Q: What else do I need to know?

A: You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you’ll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income and, in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs could be higher than those of a normal pension fund.

The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned. ■

FOR FURTHER INFORMATION OR TO DISCUSS YOUR RETIREMENT PLANNING OPTIONS, PLEASE CONTACT US.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance and you must remember pensions are a long-term commitment. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.



Protecting business continuity

Don't overlook your most important assets, the people who drive your business

Every business has key people who are driving it forward. Many businesses recognise the need to insure their company property, equipment and fixed assets. However, they continually overlook their most important assets, the people who drive the business – a key employee, director or shareholder.

Q: What is key person insurance?

A: Key person insurance is designed to compensate a business for the financial loss brought about by the death or critical illness of a key employee, such as a company director or other integral member of staff. It can provide a valuable cash injection to the business to aid a potential loss of turnover and provide funds to replace the key person.

Q: How could my business benefit from key person insurance?

A: You cannot replace the loss of a key person, but you can protect against the financial burden such an event may cause. Without the right cover in place, you could also risk losing your business. Key person insurance can be utilised in a number of different ways – for example, to repay any loans taken out by the key person; to help recruit and fund the training costs for replacement staff; to meet the ongoing expenses while the level of sales recover; or to facilitate payments for outside consultants or expert advice that may be required.

Q: What type of key person insurance is available?

A: There are various options to choose from, including life cover only, critical illness cover, or combined life cover and critical illness cover. You can select different levels of cover and terms depending on your specific requirements

and there are also policies available that pay out a regular income in the event of sickness.

Q: How is a key person policy taxed?

A: There are a number of issues to be aware of with regard to the taxation aspects of premiums and benefits. Because the premiums may be eligible for tax relief, HM Revenue & Customs (HMRC) require that the amount of benefit covered can be justified.

The premiums paid will be allowed as a business expense for corporation tax purposes provided that:

- the only relationship between the proposer and the life assured is that of employer and employee (except in the case of shareholding directors)
- the plan is designed to cover loss of profits only
- the term of the insurance is reasonable – a five-year term is normally acceptable but some HMRC inspectors may allow up to ten years
- the employee does not hold a significant shareholding

If the premium is a permitted allowable expense, then the policy proceeds would normally be subject to taxation. However, there are no hard and fast rules regarding the tax treatment of premiums and benefits, which is the ultimate decision of HMRC.

It is not the case that if the business decides not to apply for tax relief on the premiums, any proceeds will necessarily be tax-free. The taxation decisions rest with HMRC. It is therefore very important that the effects of taxation should be considered when arranging the policy.

Q: How is the level of cover calculated?

A: The cover required is measured by reference to the key person's contribution to the profits of the business. This may be based on the following information:

- past profits and projections for the future
- the effect that the loss of the key person would have on future profitability
- the anticipated cost of recruiting and/or training a replacement
- the expected recovery period, for example, the length of time before a replacement is effective
- the amount of any loan(s) that would be called in on the death of the key person

Q: Should a key person policy be written in trust?

A: No. Since the object of the policy is to pay a lump sum to the business on the death or incapacity of a key person, it follows that the policy should not be written in trust.

Q: What is shareholder and partnership protection?

A: Shareholder and partnership protection provides an agreement between shareholding directors or partners in a business, supported by life assurance to ensure that there are sufficient funds for the survivor to purchase the shares. It is designed to

ensure that the control of the business is retained by the remaining directors or partners but the value of the deceased's interest in the business is passed to their chosen beneficiaries in the most tax-efficient manner possible.

If a shareholding director or partner were to die, the implications for the business could be very serious indeed. Not only would there be a loss of experience and expertise, but consider, too, what might happen to their shares.

The shares could pass to someone who has no knowledge or interest in the business. Or you may discover that you can't afford to buy the shareholding. It's even possible that the person to whom the shares are passed then becomes a majority shareholder and so is in a position to sell the company.

Q: What is a cross-option agreement?

A: By taking out a cross-option agreement, you will determine what will happen to the shares in the business if one of the owners were to die or become critically ill. It is important that this agreement is not binding regarding sale of the shares, because this will prevent you from claiming relief from inheritance tax.

The shareholding directors or partners in a business enter into an agreement that does not create a legally binding obligation on either party to buy or sell the shares but rather gives both parties an option to buy or sell. For example, the survivor has the option to buy the shares of the deceased shareholder and the executors of the deceased shareholder have the option to sell those shares.

In either case it is the exercise of the option that creates a binding agreement; there is no binding agreement beforehand. This type of agreement is generally called a 'cross-option' agreement or a 'double option' agreement. ■



“ Every business has key people who are driving it forward. Many businesses recognise the need to insure their company property, equipment and fixed assets. However, they continually overlook their most important assets, the people who drive the business – a key employee, director or shareholder. ”



Pension transfers

Are you looking for better fund performance and lower charges?

Pension transfers can be complicated and you should always seek professional financial advice before proceeding. Much will depend upon your individual circumstances and objectives.

REASONS TO TRANSFER

There are a number of different reasons why you may wish to consider transferring your pension(s), whether this is the result of a change of employment, poor investment performance, high charges and issues over the security of the pension scheme, or a need to improve flexibility.

You might well have several different types of pension, including a final-salary related scheme(s), which pays a pension based on your salary when you leave your job and on years of service. Your previous employer might try to encourage you to move your occupational pension away by boosting your fund with an 'enhanced' transfer value and

even a cash lump sum. This still may not compensate for the benefits you are giving up and you may need an exceptionally high rate of investment return on the funds you are given to match what you would receive if you remained in the final-salary related scheme.

Alternatively, you may have a defined contribution (money purchase) occupational scheme or a personal pension. These pensions rely on contributions and investment growth to build up a fund.

If appropriate to your particular situation, it may make sense to bring these pensions under one roof to benefit from lower charges, make fund monitoring easier and aim to improve fund performance. But

**THERE ARE A NUMBER
OF DIFFERENT REASONS
WHY YOU MAY WISH TO
CONSIDER TRANSFERRING
YOUR PENSION, FOR MORE
INFORMATION PLEASE
CONTACT US**



remember that transferring your pension will not necessarily guarantee greater benefits in retirement.

OTHER VALUABLE BENEFITS

You will need to consider that your pension(s) might have or had other valuable benefits that you could lose when transferring out, such as death benefits or a Guaranteed Annuity Rate (GAR) option. A GAR is where the insurance company guarantees to pay your pension at a particular rate, which may be much higher than the rates available in the market when you retire.

In addition, some pensions may also apply a penalty on transferring out. These can be significant depending on the size of your fund, so it is important to check if one applies in your case.

It is also important that the investments chosen are appropriate for the level of risk you are prepared to take. Obtaining professional financial advice will enable you fully to consider and assess the risks and potential benefits of the different funds and investments. This will mean you can make an informed decision about the level of risk you are prepared to take. ■

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

IF YOU WOULD LIKE TO DISCUSS YOUR PARTICULAR SITUATION, OR TO FIND OUT MORE ABOUT THE SERVICES WE PROVIDE, PLEASE CONTACT US.

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Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.