

MERCURY

—WEALTH MANAGEMENT—

Creating, Managing and Protecting your wealth

Planning for tomorrow

What retirement income should you aim for?

New pension rule opportunities

When was the last time you reassessed your savings strategy?

Shared investments

How to diversify your portfolio

Trust in your future

Passing on wealth in a tax-efficient manner

SOCIAL CARE COSTS

Keeping pace with the growing size of an ageing population.

In search of income

Is your cash struggling to keep pace with inflation?

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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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Helping people save more for their retirement

Welcome

Welcome to the latest issue of our magazine. Inside this edition you will find a diverse range of subjects that will help you make more of your money.

Retirement may seem a long way off but are you saving enough now for a comfortable retirement in the future? A general rule of thumb suggests that you should aim for a retirement income of two-thirds of the amount you would expect to be earning at the end of your career. It can be hard to plan for tomorrow in this current climate of austerity when we're busy living for today, but if you begin planning and saving now you'll have more options in the future (see page 06).

Inheritance Tax (IHT) is an issue affecting increasing numbers of households across the country. Changes introduced in Chancellor Alistair Darling's pre-Budget report in October 2007 have made it more straightforward for couples and civil partners to combine their individual IHT allowances, so that it is easier for them to protect their families' inheritance. Turn to page 21 to find out more.

Pension investors should reassess their savings strategy at least annually and particularly this year, following the coalition government's announcement of new pension rules. The new rules, which were introduced on 6 April this year, are designed to simplify the complex measures introduced by the previous government and may affect the amount you can save into and withdraw from your pension. Read the full article on page 20.

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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Wrapping up your pension

Do you want more control over where your money is invested?

Self-Invested Personal Pensions (SIPPs) were introduced in 1989 to give those planning for retirement greater control over where their pension fund is invested. Essentially, a SIPP is a pension wrapper that is capable of holding investments and providing you with the same tax advantages as other personal pension plans.

MORE CONTROL

You can choose from a number of different investments, unlike other traditional pension schemes, giving you control over where your money is invested. A SIPP offers the widest range of pension investments, including cash, equities (both UK and foreign), gilts, unit trusts, OEICS, hedge funds, investment trusts, real estate investment trusts, commercial property and land, traded endowment plans and options.

CARRY FORWARD

There is an annual maximum tax-relievable contribution level of £50,000 for 2011/12. You could contribute more, but would be taxed at your marginal rate. Commencing from the start of the 2011/12 tax year, it is now possible to carry forward any unused allowance from the previous three tax years (for this purpose the maximum allowance is £50,000 per tax year). We would strongly recommend that you obtain professional financial advice if you would like to utilise this option.

Pensionable income, including employment income, bonus, benefits in kind, self employment and partnership profits, can all be contributed. Pensionable income does not include investment income, rental income or pension income.

If you make a contribution that takes your taxable earnings below the higher rate tax threshold, then the tax relief will be less than 40 per cent.

OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you need to spend time managing your investments.

Where investment is made in commercial property, you may 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 are higher than those of a normal pension fund. ■

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. 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.



1989

Year SIPPs were first introduced.

£50,000

Maximum annual level of tax-relievable contribution (2011/12).

New retail sales of funds

The highest first half on record

According to the Investment Management Association (IMA), net retail sales of funds of funds (an investment strategy of holding a portfolio of other investment funds rather than investing directly in shares, bonds or other securities) totalled £3.8bn for the first six months of the year, the highest first half on record.

Richard Saunders, chief executive at the IMA, said: "In gross retail sales terms, £1 in every £8 invested in funds was invested in funds of funds in the second quarter."

Funds under management for funds of funds came to £63.5bn at the end of the second quarter, accounting for 11 per cent of total funds under management.

Balanced funds (consisting of active managed, balanced managed, cautious managed and UK equity and bond income) accounted for over half (57 per cent) of total funds under management for funds of funds.

“ Sales of ethical funds (a mutual fund in which the asset managers make investment decisions based upon some ethical code) also performed reasonably well. ”

Gross retail sales of balanced funds totalled £1.86bn in the second quarter, accounting for 49 per cent of total funds of funds gross retail sales.

Although retail sales of tracker funds in the second quarter were not as good as previous periods – net retail sales totalled £313m compared to £515m during the past four quarters – it emerged that 6.7 per cent of total funds under management are put into these types of funds.

Sales of ethical funds (a mutual fund in which the asset managers make investment decisions based upon some ethical code) also performed reasonably well.

In the second quarter, net retail sales of ethical funds totalled £94m, the highest quarter since the fourth quarter of 2007.

The IMA added that ethical funds under management totalled £7.1bn at the end of June 2011, up 23 per cent on the second quarter of 2010. ■

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Planning for tomorrow

What retirement income should you aim for?

Retirement may seem a long way off but are you saving enough now for a comfortable retirement in the future? A general rule of thumb suggests that you should aim for a retirement income of two-thirds of the amount you would expect to be earning at the end of your career.

It can be hard to plan for tomorrow in this current climate of austerity when we're busy living for today, but if you begin planning and saving now you'll have more options in the future.

SUFFICIENT INCOME

With the state pension and some private pensions falling short, can you rely on these alone to provide sufficient income? The state pension age for women is set to increase to 65 by 2018 and will rise to 66 by 2020 for everyone. The government has confirmed this timetable in the face of much opposition.

The decline in the state pension over recent decades and the diminution of the final salary scheme sector have left millions to fend for themselves in their retirement provision, though many will still enjoy some contributory support from their employer.

SIMPLE CONCEPT

You'll be surprised at the big difference it can make to your savings if you start saving early. This is because of 'compounding'.

Compounding is a simple concept. When you invest money you earn interest or income on your capital. Then next year you earn on both your original capital and the interest from the first year, and so on. It's the snowball effect – as your capital 'rolls down the hill', it becomes bigger and bigger. The earlier you start investing, the more time you have for compounding to take effect.

PRESERVE YOUR SAVINGS

The closer you get to retirement, the greater the need to preserve your savings and ensure they will last all through your retirement. This is also a time to consider what

changes you may need to make to your investments as you approach retirement.

People are living longer, so you'll need to make sure your money lasts as long as you do. It's also crucial to make the right investment decisions now to ensure that over time your money will keep pace with the threat of rising inflation.

ENSURE YOUR PENSION PLANS ARE ON TRACK.

DO YOU KNOW THE ANSWERS TO THESE QUESTIONS?

- Are you paying enough into your pension?
- What income is your pension fund likely to buy you in retirement?
- At what age will you be able to afford to retire?
- Where is your money invested?
- How will you draw an income at retirement?

PLANNING FOR YOUR RETIREMENT CAN MAKE A WORLD OF DIFFERENCE. FOR MORE INFORMATION ABOUT MANAGING YOUR FINANCES WHEN YOU REACH RETIREMENT, PLEASE CONTACT US FOR FURTHER INFORMATION.

BRIDGING THE GAP

Will you be faced with an income shortfall?

While pensioners said they needed an average of £22,000 a year to live comfortably, their actual income averaged £15,800, according to a recent report by Prudential, the insurer. Almost two in five said they found living on their retirement income harder than they had expected.

INCOME SHORTFALL

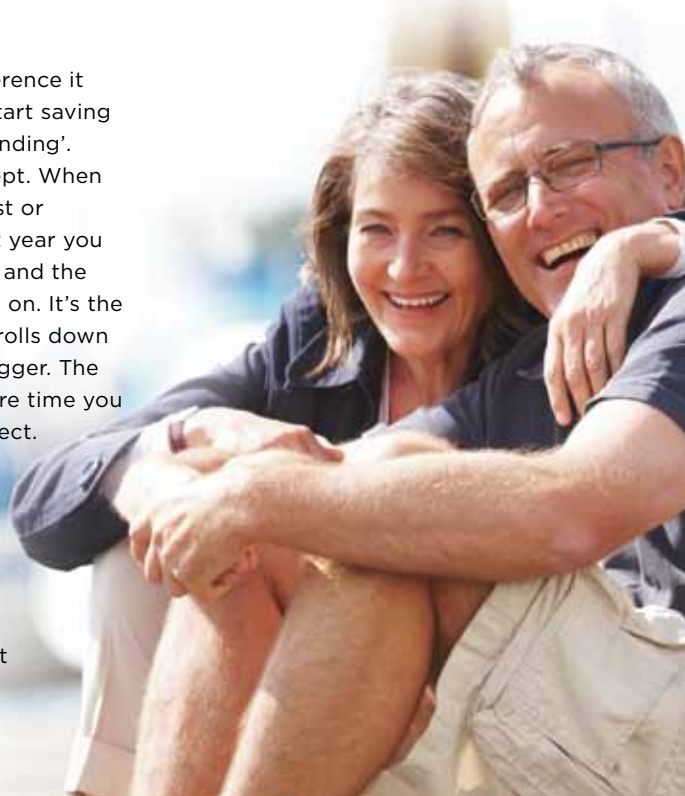
Pensioners faced with an income shortfall are using a variety of ways to bridge the gap, the Prudential research found:

- 17 per cent of pensioners continue to work part-time
- 12 per cent have moved to a less expensive property
- 6 per cent have released equity from their home
- 5 per cent sold other assets to raise funds

Vince Smith-Hughes, the insurer's Head of Business Development, said: 'While some pensioners can draw on a range of assets and savings to boost their income and help them enjoy life in retirement, others simply get by on less than they would like.'

He added: 'As people are living longer and need to fund more years in retirement, it is increasingly important to seek advice from professionals and put by as much as possible, as early as possible.'

The research also found that women (41 per cent) were more likely than men (33 per cent) to find it difficult to live on their retirement income. ■





Getting a good mix of assets

Spreading your capital across different investment vehicles

Having the right mix of investments will enable you to plan to keep your savings ahead of any inflationary concerns you may have. Spreading risk and getting a good mix of assets is known as 'diversification'. This is a relatively simple concept; it means spreading your capital across different investment vehicles rather than placing all your capital solely in one place.

SPREADING RISK

Diversification is an important factor for advisers and investors to consider. By spreading risk across different investment types, you reduce the chances of your entire investment capital being adversely affected by any sudden market movement in the sector that you happen to be invested in.

Taking calculated risks is an important part of managing your money. Saving money in deposit-based accounts is usually the safest option; however, the real value of your savings can be eroded over time by inflation. For most of us, savings alone may not deliver high enough returns to support our lifestyle in the future, for example the next five to ten years, let alone in retirement.

DIVERSIFIED APPROACH

If you are willing to accept the added risk of investing in asset-backed investments, it is important that you take a diversified approach. This means you spread your investments, and therefore your risk, among several asset classes. No investment is completely free of risk so the asset classes you choose and your relative exposure to each class must reflect your attitude to risk. You can build your own diversified portfolio by selecting your own investments, or you can entrust it to fund managers who will do it on your behalf.

When diversifying your portfolio, you will probably invest in a combination of UK equities, overseas equities, property, bonds and cash. Your relative weighting in each asset class will depend on your attitude to investment risk. You will also need balance within each asset class to ensure you do not overexpose yourself to one industry or currency. You'll probably hold a basket of assets that behave differently in differing investment conditions. This can have a smoothing effect during volatile investment conditions, stabilising your overall investment return.

COLLECTIVE INVESTMENTS

Investing directly into the markets may be too risky for some people, which is why many investors choose to invest in collective investment funds, such as unit trusts and Open-Ended Investment Companies (OEICs), where you can pool your investment with others and spread your risk much wider.

You can also diversify within the geographical areas and asset types in which you are investing. This provides more scope to spread your portfolio across different-sized companies, from the big blue chips to smaller ones, and across managers with different investment styles. This enables you to reduce the impact on your investments from one region or sector or from a particular manager.

REDUCE YOUR RISK EXPOSURE

By diversifying your assets and classes of assets more widely you can actually effectively reduce your risk exposure, although even with a diversified portfolio the value of investments can go down as well as up.

It's not always easy making decisions about how to invest your hard-earned money. There's a lot to consider and it can be difficult to know where to start. We can provide the essential information you'll need to enhance your understanding of investment and the products available, allowing you to make better choices. ■

TAKING INTO ACCOUNT YOUR ATTITUDE TO RISK, WE WILL BE ABLE TO HELP YOU SELECT A PORTFOLIO THAT MEETS YOUR NEEDS, SO FOR MORE INFORMATION PLEASE CONTACT US.

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Sacrificing your salary

Contributing a preferential sum into an employee's pension plan

Salary sacrifice (sometimes known as 'salary waiver') in the context of retirement planning is a contractual arrangement whereby an employee gives up the right to receive part of their cash remuneration, usually in return for their employer's agreement to provide some form of non-cash benefit. Salary sacrifice is a voluntary scheme so, even if your employer offers it, they cannot force you to take part.

Many companies, with pension deficits, have used salary sacrifice as a way of cutting the cost of pensions by removing contributions from the National Insurance Contributions (NICs) net and hence saving money for both the employer and employee. It can effectively 'increase' up take-home pay at a time when staff are seeing wages squeezed because of higher pension bills.

INCREASED PENSION SCHEME CONTRIBUTIONS

Salary Sacrifice is offered by some employers as a means for their employees to receive increased pension scheme contributions. It is not an effective way of saving for everyone so, if your employer offers salary sacrifice, you should make sure you benefit before signing up. Salary sacrifice is about varying the employee's terms and conditions as they relate to remuneration, and is a matter for agreement between the employer and employee.

FREE OF TAX AND NICs

To be effective, a salary sacrifice must be 'given up' before it's subjected to tax or NICs. This allows the employee to save the entire amount of their sacrificed income in their pension plan free of tax and NICs.

You sacrifice part of your salary. The amount you sacrifice is paid to your pension plan directly by your employer, rather than being paid to you. As a result of you having a lower salary, both you and your employer pay less National Insurance Contribution (NIC). As part of the salary sacrifice deal, your employer pays all or part of their NIC saving to your pension plan along with the sacrificed amount.

For example, you earn £30,000 a year and decide you want to salary sacrifice £1,000. Your new salary is £29,000, with the employer paying £1,000 to your pension plan. You pay less NIC (and in some cases Income Tax) because your salary is lower. Your employer also pays less NICs and pays a percentage of their saving to your pension scheme.

The percentage of NIC saving your employer pays is defined by them as part of their salary sacrifice offer. It could be anything between 0 per cent and 100 per cent.

SALARY SACRIFICE ADVANTAGES

The main advantages are:

- you pay less NIC (and in some cases Income Tax) because your income is lower; and;
- you may receive a boost to your retirement savings because your employer may add a percentage of their NIC saving to your pension contribution.

SALARY SACRIFICE DISADVANTAGES

Salary sacrifice results in you having a lower salary. This could affect the following:

life cover - your employer may provide you with life cover, which is usually calculated as a multiple of your salary. As your salary is lower under salary sacrifice,

so may your life cover. Some employers may continue to provide life cover at the pre-salary sacrifice pay;

refund of contributions - some occupational pension schemes offer a refund of employee contributions on leaving with less than two years service.

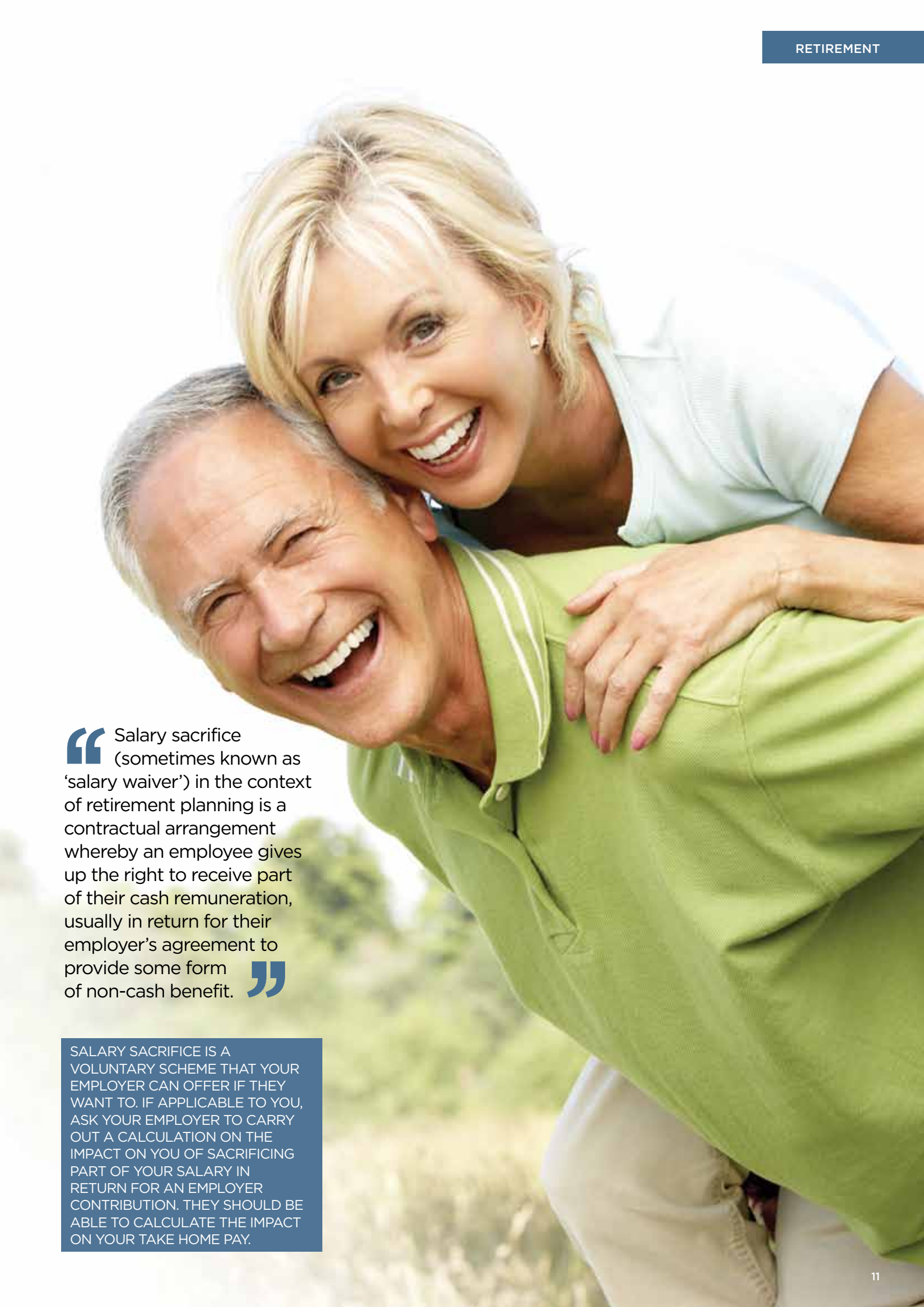
The contribution paid as part of the salary sacrifice arrangement is not an employee contribution so would not be refunded; mortgage borrowing - mortgage lenders usually calculate the maximum borrowing level as a multiple of salary. As your salary is lower under salary sacrifice, your mortgage borrowing may be affected;

Statutory Maternity Pay (SMP) - SMP is available if you earn above the Lower Earnings Limit prior to going on maternity leave. If salary sacrifice brings your salary below this level, your entitlement to SMP may be lost;

State Second Pension (S2P) - this additional part of the state pension is calculated with reference to your earnings. Any reduction in your earnings between the Low Earnings Threshold (£14,400 in 2011/12) and the Upper Accrual Point (£40,040 in 2011/12) may affect this entitlement;

State Second Pension (S2P) - as with SMP, if salary sacrifice brings your salary below the Low Earnings Threshold, your entitlement to S2P may be lost. ■

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A photograph of an elderly couple smiling and embracing outdoors. The man is in the foreground, wearing a green polo shirt, and the woman is leaning over his shoulder from behind, wearing a light blue top. They are both smiling broadly, and the background is a soft-focus natural setting.

“ Salary sacrifice (sometimes known as ‘salary waiver’) in the context of retirement planning is a contractual arrangement whereby an employee gives up the right to receive part of their cash remuneration, usually in return for their employer’s agreement to provide some form of non-cash benefit. ”

SALARY SACRIFICE IS A VOLUNTARY SCHEME THAT YOUR EMPLOYER CAN OFFER IF THEY WANT TO. IF APPLICABLE TO YOU, ASK YOUR EMPLOYER TO CARRY OUT A CALCULATION ON THE IMPACT ON YOU OF SACRIFICING PART OF YOUR SALARY IN RETURN FOR AN EMPLOYER CONTRIBUTION. THEY SHOULD BE ABLE TO CALCULATE THE IMPACT ON YOUR TAKE HOME PAY.

Locating lost assets

Many organisations can help you track down your forgotten wealth

At any one time it is estimated that between £15 - £20 billion is lost in the financial system. Some of it belongs to people who have died but the majority has just been forgotten. For those who think they've lost track of an account or funds there are many organisations that can help you track down and find these assets.

BANK AND BUILDING SOCIETY ACCOUNTS

If your account has been inactive for a long time your account provider should write to you to ask if you want it to remain open. If it gets no response - perhaps because the letters are going to an old address - it will stop sending letters and statements and class the account as dormant. However, your money will be safe and waiting for you to reclaim it.

If you have a passbook or details of the account and where it is held you should contact the provider directly. Some banks have forms on their websites for you to fill in and reclaim your money. The more account details you have the better your chance of being quickly reunited with your money.

Savers who don't know which bank or building society their account is held with, or who currently owns the organisation, can use a central search set up by the British Bankers' Association (BBA), the Building Societies Association, and National

“ If your account has been inactive for a long time your account provider should write to you to ask if you want it to remain open. If it gets no response - perhaps because the letters are going to an old address - it will stop sending letters and statements and class the account as dormant. However, your money will be safe and waiting for you to reclaim it. ”

Savings and Investments (NS&I). You should call the BBA's dormant accounts unit on 020 7216 8909.

NATIONAL SAVINGS & INVESTMENTS

You can go direct to NS&I and use its tracing service, or use the mylostaccount site to search for lost accounts. Both services cover accounts bought from NS&I and the old Post Office Savings Bank accounts, as well as missing Premium Bonds.

However, if you know your Premium Bond numbers but do not know if you have unclaimed prizes you should check if you have won on the NS&I website.

As long as you have some information or documentation - for example, the holder's number, the holder's card or the Bond itself - you won't need to complete a tracing request form to claim your lost prize.

PENSIONS

The government's Pension Service will track down your missing occupational or personal pension schemes. You can just give the name of your previous employer or pension scheme provider, but the more information you can provide the more likely you are to be successful. A full name and address for the scheme or employer, and details of when you were a member, will help.

INVESTMENTS AND INSURANCE POLICIES

Unless you know the name of the company from which it was bought, the easiest way to trace a lost life insurance policy is to pay a search service. The Association of British Insurers suggests using the Unclaimed Assets Register, as many of its members register unclaimed policies with the site.

You can search online for policies held in your own name, but if you want to search for policies held in someone else's name - for example a deceased parent - you will need to print off the form and post it. Its database includes unclaimed life policies, pensions, unit trust holdings and share dividends. ■



RETIREMENT DREAMS UNDERMINED

Retired people making more requests for financial assistance from relatives

The latest figures show the number of pensioners relying on financial assistance from family members has more than doubled to a quarter of a million since last year because of rising inflation.

New research from MGM Advantage, the annuity provider, found that more than 265,000 retired people had made requests for financial assistance from relatives, while 725,000 pensioners now regularly relied on credit in retirement. This is a significant increase on last year, when 119,000 people requested financial help from family and 486,000 depended on credit to make ends meet.

Millions of pensioners are seeing their retirement dreams undermined by the rising cost of living and inadequate financial preparation for their retirement.

Figures suggest that almost four million retired people have scaled back on their daily expenditure, with around 500,000 returning to employment or starting a new career during their retirement.

Craig Fazzini-Jones, a director at MGM Advantage, said: "It is tragic that so many people's retirement dreams fail to come to fruition. The pressures facing retirees have increased significantly over the past six months as the rising cost of living continues to erode their disposable income.

"So it is essential they make their pension fund work as hard as possible by making the best decision on how they turn their fund into a retirement income." ■

Securing an income for life

Converting your pension fund into an annuity

Whether your retirement is a long way off or just around the corner, it's important to think about how much income you're going to have. And as you approach retirement, you'll also have to decide how you'd like to receive the money from any pensions you've been saving towards. The most popular way of securing an income for life is by converting your pension fund into an annuity.



A GUARANTEED INCOME FOR LIFE

An annuity provides you with a guaranteed income for life when you retire. You buy an annuity using a lump sum from your pension or, perhaps, some savings. Annuities remove the worry of having to budget for an unknown period of time.

You can buy your annuity from any provider and it certainly doesn't have to be with the company you had your pension plan with. The amount of income you will receive from your annuity will vary between different insurance companies so it's essential to shop around for comparisons before making your decision. This could be an expensive mistake if you get it wrong. The difference between the annuity rates will be dependent on the annuity terms selected.

Annuities can't be changed once set up so it is vital you secure the best possible income. Even though you don't have to stay with the company your pension is currently held with, many people still do.

TYPES OF ANNUITY

PENSION ANNUITY

A Pension Annuity is bought using money from your pension fund. It may be appropriate if you require a guaranteed income for life, based on the value of your pension, and want to choose whether your income stays the same or increases each year. You could also qualify for a higher income due to a previous or existing medical condition your partner or you have.

An annuity promises to pay you a guaranteed regular income for life. You

have the choice to receive your annuity income monthly, quarterly, half-yearly or annually. Payments can be 'in advance' (from the start date) or 'in arrears' (at your chosen payment interval after the start date).

If you don't have a clean bill of health or you have (or have previously had) one of a range of medical conditions affecting your health or longevity, you may receive a higher income. You may also be eligible if you have lifestyle conditions, such as if you smoke or are overweight.

Once started, your annuity income will not usually go down, even if your health, or your spouse's health if applicable, improves. Depending on how long you live, you may get back less than you bought your annuity for. Once you've bought an annuity it cannot be cashed in at any time and there is no cash-in value.

You can take out an annuity that stops whenever you die. Or, alternatively, you can choose an annuity with a smaller income but which is guaranteed to be paid for either five or ten years. This is called the 'guarantee period'. The options you choose at the start of your plan can't be changed.

WITH-PROFITS PENSION ANNUITY

If you'd like to give your retirement income the potential to grow and you're happy to accept an element of risk, you could choose this annuity that invests in a With-Profits Fund. With this option, the amount of income you receive has the potential to increase over time.

It guarantees to pay an income to you for the rest of your life. The underlying annuity fund is invested in a wide range of investment assets and the income payable to you each year depends on the investment returns of those assets and the initial bonus rate selected.

This is a stock market related investment. Your income can vary from year to year and could go down. However, your income will never fall below a certain guaranteed level in the case of a with-profits pension annuity.

Your income can be paid monthly or yearly, either 'in advance' (from the start date) or 'in arrears' (at your chosen payment interval after the start date). The amount of income you receive has the potential to go down as well as up. ■

THERE ARE A NUMBER OF WAYS OF TURNING YOUR PENSION INTO A REGULAR INCOME FOR RETIREMENT. IF YOU NEED HELP DECIDING WHICH ANNUITY OR OPTIONS ARE MOST SUITABLE FOR YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

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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.

Shared investments

How to diversify your portfolio

The risk of directly investing in a single investment is that if the price drops in value, or the issuing company goes bust, you could lose money.

A way of reducing this risk is having a spread of investments in different types of a particular asset. So rather than buying shares in one company, you might buy shares in ten different companies to diversify your portfolio and help spread the risk around.

REDUCING RISK

Unit trusts and Open-Ended Investment Companies (OEICs) are forms of shared investments, or funds that allow you to pool your money with thousands of other people and invest in world stock markets. Unit trusts have proved incredibly popular because by investing in a broad spread of shares your spread and therefore risk is reduced. But they are gradually being replaced by their modern equivalent, the OEIC (pronounced 'oik').

While the underlying structure of these two types of investments differ for the investor they operate in the same way.

Both investment vehicles pool your money with other people's to invest in:

- a spread of shares or bonds
- or other investments
- or a combination, depending on their investment objectives

You can buy and sell 'units' or 'shares' respectively at any time, and the price you receive is based on the value of the underlying assets the fund has invested in.

MARKET DEMAND

Investment trusts are like unit trusts and OEICs. When you invest in an investment trust, your money is pooled with other people's to invest in a wide spread of assets. But an investment trust is a company that is traded on the stock exchange with a fixed number of shares of its own. This means that, unlike the other pooled investments, the price you pay reflects the market demand for the investment trust shares rather than the value of the underlying assets.

So sometimes you'll buy at a 'premium' to the asset value or, in other words, pay more than the underlying value. Other times you'll buy at a 'discount' or pay less than the underlying value. ■

YOU CAN'T CONTROL THE MARKETS BUT YOU CAN HAVE A PLAN. WE CAN HELP YOU PLAN AND BUILD AN INVESTMENT PORTFOLIO THAT'S RIGHT FOR YOU AND THAT WILL ENABLE YOU TO PRODUCE INCOME AND/OR CAPITAL GAINS. FOR MORE INFORMATION, 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.

LIFE FOR PENSIONERS COULD BE ABOUT TO GET EASIER

Proposals announced to unravel a raft of complicated tax laws

Life could be about to get easier for the retired. The Office of Tax Simplification (OTS) will turn its attention to pensioners in an attempt to unravel a raft of complicated tax laws relating to them.

The OTS, set up by Chancellor George Osborne in 2010, will draw up a list of proposals in time for next year's Budget aimed at easing the plight of more than 5 million pensioners who struggle to deal with their tax affairs. In particular, it is keen to address the tax problems faced by those who draw a low income from multiple sources.

In a letter to the Treasury, the Rt Hon Michael Jack, Chairman of the Office of Tax Simplification, said: 'For the estimated 5.6 million people of pensionable age paying tax, this area is widely acknowledged as causing too many problems for a group, some of whom are the least able to cope with them.'

He added: 'The OTS will be looking for ways in which pensioners' tax affairs can be dealt with in a much more straightforward way.' ■



Will your dependants cope financially in the event of your premature death?

Obtaining the right advice and knowing which products to choose is the key

Making sure you have the correct amount of life assurance will enable you to protect your loved ones from having to deal with your financial burdens. That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

Life assurance helps your dependants to cope financially in the event of your premature death. When you take out life assurance, you set the amount you want the policy to pay out should you die – this is called the 'sum assured'. Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

As you reach different stages in your life, the need for protection will inevitably change. These are typical events when you should review your life assurance requirements:

- Buying your first home with a partner
- Having other debts and dependants
- Getting married or entering into a civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying on someone else to support you
- Personal guarantee for business loans

Your life assurance premiums will vary according to a number of different factors, including the sum assured and the length of your policy (its 'term'), plus individual lifestyle factors such as your age, occupation, gender, state of health and whether or not you smoke.

If you have a spouse, partner or children,

you should have sufficient protection to pay off your mortgage and any other liabilities. After that, you may need life assurance to replace at least some of your income. How much money a family needs will vary from household to household so, ultimately, it's up to you to decide how much money you would like to leave your family that would enable them to maintain their current standard of living.

There are two basic types of life assurance, 'term' and 'whole-of-life', but within those categories there are different variations.

The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period. There are several types of term assurance.

The other type of protection available is a whole-of-life assurance policy designed to provide you with cover throughout your entire lifetime. The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die.

TAX MATTERS

Although the proceeds from a life assurance policy are tax-free, they could form part of your estate and become liable to Inheritance Tax (IHT). The simple way to avoid IHT on the proceeds is to place your policy into an appropriate trust, which enables any payout to be made directly to your dependants. Certain kinds of trust allow you to control what happens to your payout after death and this could speed up a payment. However, they cannot be used for life assurance policies that are assigned to (earmarked for) your mortgage lender.

Generally speaking, the amount of life assurance you may need should provide a lump sum that is sufficient to remove

the burden of any debts and, ideally, leave enough over to invest in order to provide an income to support your dependants for the required period of time.

The first consideration is to clarify what you want the life assurance to protect. If you simply want to cover your mortgage, then an amount equal to the outstanding mortgage debt can achieve that.

However, if you want to prevent your family from being financially disadvantaged by your premature death and provide enough financial support to maintain their current lifestyle, there are a few more variables you should consider.

- What are your family expenses and how would they change if you died?
- How much would the family expenditure increase on requirements such as childcare if you were to die?
- How much would your family income drop if you were to die?
- How much cover do you receive from your employer or company pension scheme and for how long?
- What existing policies do you have already and how far do they go to meeting your needs?
- How long would your existing savings last?
- What state benefits are there that could provide extra support to meet your family's needs?
- How would the return of inflation to the economy affect the amount of your cover over time?

IT'S ESSENTIAL TO HAVE THE RIGHT SORT OF LIFE ASSURANCE IN PLACE. YOU CAN'T RELY ON ALWAYS BEING THERE FOR THOSE WHO DEPEND ON YOU. THERE ARE VARIOUS WAYS OF PROVIDING FOR YOUR FAMILY IN THE EVENT OF YOUR PREMATURE DEATH - TO DISCUSS HOW WE COULD HELP YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

In search of income

Is your cash struggling to keep pace with inflation?

The current low interest rates are good news for mortgage repayments but not so good if you are relying on your savings to produce an income. If you are a saver rather than a borrower, you will have noticed the interest you are receiving has fallen some way in recent years.

EMERGENCY FUND

Savers who have seen their savings lose ground to inflation will benefit from reassessing the role of cash in their portfolios. Cash is important to meet short-term purchases and as an emergency fund – 6 to 12 months' worth of expenditure is common. Cash deposits also work well if you're concerned about the prospects for markets or need your money back within five years, as stock market investments are for the long term.

However, with interest rates remaining at historic lows, cash is struggling to keep pace with inflation at present, particularly after tax. Therefore it may not be wise to hold too much cash if you are able to accept that your capital and income is not guaranteed and will fluctuate in value.

GENERATING INCOME

Generating an income from your investments is often an important requirement for people who are retired or approaching retirement, those who need to supplement their salary or those with a relatively short investment timeframe.

It is important that you seek professional advice when looking to invest for income as any solution needs to take account of your existing savings and investment portfolio and your attitude to investment risk. The following all offer alternative ways of producing an income from your savings; however, they all carry more risk to your capital than leaving it on deposit.

Equity income funds – these funds invest in shares of companies that tend to pay higher dividends on a regular basis for the purpose of providing an income.

Government bonds, or gilts – because most government loan stock is considered as safe an asset as you can get, the returns are lower than corporate bonds because of the lower risk.

Guaranteed income bonds – these offer a fixed income over a fixed period, usually up to five years. They often offer a capital guarantee as well, provided you hold them until maturity.

GREATER FLEXIBILITY

The new ISA rules also offer greater flexibility, including the option to transfer a Cash ISA to a Stocks & Shares ISA in search of a higher yield. This transfer does not affect your annual ISA subscription but it will put your capital at risk because the value of stock market investments is not guaranteed, so you could get back less than you invest.

Interest on cash in a Cash ISA is paid gross whereas within a Stocks & Shares ISA the income is only paid gross on corporate and government bonds; on everything else, including cash, the income is paid net. You can transfer money from a Cash ISA to a Stocks & Shares ISA but not the other way around. ■

ALTHOUGH INTEREST ON YOUR CURRENT DEPOSITS MAY BE AT AN ALL-TIME LOW, YOUR CAPITAL IS, AT LEAST, RELATIVELY SAFE. THEREFORE, BEFORE YOU SACRIFICE ANY SAFETY IN A SEARCH FOR INCOME, YOU SHOULD OBTAIN PROFESSIONAL FINANCIAL ADVICE. TO DISCUSS YOUR OPTIONS PLEASE CONTACT US.

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SOCIAL CARE COSTS

Keeping pace with the growing size of an ageing population

The funding of long-term care remains one of the biggest public policy challenges facing the government. As the baby-boomer generation grows older, it is estimated that spending on social care needs to double in real terms over the next twenty years just to keep pace with the growing size of the ageing population.

In July 2010, the Commission on Funding of Care and Support was set up by the coalition to review the funding system of care and support in England. Chaired by Andrew Dilnot, it presented its findings to the government in its report 'Fairer Care Funding', published on 4 July 2011.

Among the recommendations in the report are:

- Individuals' lifetime contributions towards their social care costs – which are currently potentially unlimited – should be capped. After the cap is reached, individuals would be eligible for full state support for care costs. This cap should be between £25,000 and £50,000. We consider that £35,000 is the most appropriate and fair figure.
- The means-tested threshold, above which people are liable for their full care costs, should be increased from £23,250 to £100,000.
- National eligibility criteria and portable assessments should be introduced to ensure greater consistency.
- All those who enter adulthood with a care and support need should be eligible for free state support immediately rather than being subjected to a means test.



*Source: 'Metlife's '10 years to save for your retirement' publication' May 2011.

50-plus

The average amount working adults aged 50-plus have saved in their pension fund is £51,200*.

4%

Percentage of working adults aged 50-plus who have funds of more than £200,000*.

New pension rule opportunities

When was the last time you reassessed your savings strategy?

Pension investors should reassess their savings strategy at least annually, and particularly this year, following the coalition government's announcement of new pension rules.

COMPLEX MEASURES

The new rules, which were introduced on 6 April this year, are designed to simplify the complex measures introduced by the previous government and may affect the amount you can save into, and withdraw from, your pension.

Previously, the amount you could contribute to a pension depended on your total income and the more you earned, the more complex the rules became.

UNUSED ALLOWANCE

On 6 April 2011, this complexity was swept away and replaced with a simple flat £50,000 gross annual limit on contributions, with tax relief available up to 100 per cent of earnings or the above allowance, whichever is lower. The government has also given savers the ability to 'carry forward' any unused allowance from 2008/9, 2009/10 and 2010/11 so long as they were a member of a registered pension scheme during those years. An annual allowance of £50,000 will be assumed for those tax years for carry-forward purposes.

The unused allowance is not scheme specific - it relates to all pension schemes that an individual may be contributing to, or in which they have benefits accruing. So, subject to a person's previous contribution history, they could in theory contribute an additional £150,000 into their pension commencing from the start of this current tax year. Some higher earners who were reluctant to contribute

to their pensions in the previous two years will find this facility very attractive.

DELAYING CONTRIBUTIONS

However, the reduction in the annual allowance from £225,000 to £50,000 means investors will need to assess carefully the potential cost of delaying pension contributions as it will no longer be possible to make large contributions on a regular basis to make up for previous years.

The government is to reduce the total sum that can be invested in a pension (the lifetime allowance) from £1.8m to £1.5m from April 2012 and will introduce transitional rules for those who have accumulated pension benefits based on the current lifetime allowance of £1.8m.

PREVIOUS RULES

Under the previous rules, when a person reached age 75 (this rule has now been abolished), they had to take their pension fund and either purchase an annuity or invest in an Alternatively Secured Pension (ASP). On death, the ASP may have been subject to a tax penalty of up to 82 per cent.

From 6 April 2011, this tax has been replaced with a flat 55 per cent tax charge paid at death on the pensions of individuals over 75 or, for those under 75, on the part of their pension they have so far drawn down. For the first time this enables people to pass on some of their pension savings to relatives beyond a surviving spouse. Annuities can now be taken after age 75.

FLEXIBLE DRAWDOWN

A new concept of 'Flexible Drawdown' has been introduced, allowing individuals to draw down unlimited amounts from their pension funds providing they have secured a

minimum income, currently set at £20,000, to prevent them running out of money.

State pensions, annuities (but not purchased life annuities) and secured income from defined benefit schemes also count towards the minimum income assessment.

However, high withdrawals may erode the value of the pension fund; if investment returns are not sufficient to make up the balance this may reduce the amount of any potential pension annuity.

There is also no guarantee that an individual's income will be as high as that offered under the pension annuity (or compulsory purchase annuity).

The new rules regarding contributions do not affect just personal pensions and Self-Invested Personal Pensions (SIPPs) but also occupational schemes, including defined benefits or final salary schemes. ■

NOW IS THE TIME TO REVIEW PENSION ARRANGEMENTS TO ENSURE THEY ARE NOT CAPTURED BY THE NEW LIFETIME ALLOWANCE. IF YOU ARE UNCERTAIN ABOUT ANY OF YOUR PENSION ARRANGEMENTS, PLEASE CONTACT US FOR FURTHER ASSISTANCE.

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Trust in your future

Passing on wealth in a tax-efficient manner

Inheritance Tax (IHT) is an issue affecting increasing numbers of households across the country. Changes introduced in Chancellor Alistair Darling's pre-Budget report in October 2007 have made it possible for couples and civil partners to combine their individual IHT allowances, so that it is easier for them to protect their families' inheritance.

IHT is currently payable at 40 per cent on any amount over £325,000 – the nil rate band (tax year 2011/12). The nil rate band is the term used to describe the value an estate can have before it is taxed (£650,000 for married couples). So if you have an estate worth £500,000, £175,000 is taxed at 40 per cent, meaning the IHT bill would be £70,000.

ESTATE PLANNING TOOL

Trusts are a well-established and useful tool in estate planning. A trust allows someone (the settlor) to make a gift of assets, without completely losing control of those assets, by placing them with a third-party (the trustees) to administer on behalf of the trust beneficiaries.

The value of a trust in IHT planning is that it enables you to reduce the wealth on which your beneficiaries will pay IHT without making a valuable outright gift – something you might be reluctant to do if the potential recipients are quite young or might take an irresponsible approach to a substantial sum of money, for example.

PASSING ON WEALTH

The trust allows wealth to be passed on in a tax-efficient manner under the control of the trustees, who can include the settlor. There are different types of trust. Some give the trustees very little discretion, but can be useful when the aim is to establish the future use of assets. For example, a Will trust could give a widow the right to certain income, with the capital passing to any children on her death.

Other trusts, known as discretionary trusts, allow the trustees to retain control of the assets under the terms of the trust, which set out when and what the beneficiaries receive. They can also allow the trustees to react to changes in the beneficiaries' circumstances. Again, the settlor can be named as a trustee.

BARE (ABSOLUTE) TRUSTS

With a bare trust you name the beneficiaries at the outset and these can't be changed. The assets, both income and capital, are immediately owned and can be taken by the beneficiary at age 18 (16 in Scotland).

INTEREST IN POSSESSION TRUSTS

An interest in possession trust is one where the beneficiary of a trust has an immediate and automatic right to the income from the trust after expenses. The trustee (the person running the trust) must pass all of the income received, less any trustees' expenses, to the beneficiary. The beneficiary who receives income (the 'income beneficiary') often doesn't have any rights over the capital held in such a trust. The capital will normally pass to a different beneficiary or beneficiaries in the future. Depending on the terms of the trust, the trustees might have the power to pay capital to a beneficiary even though that beneficiary only has a right to receive income.

DISCRETIONARY TRUSTS

Here the trustees decide what happens to the income and capital throughout the lifetime of the trust and how it is paid out. There is usually a wide range of beneficiaries but no specific beneficiary has the right to income from the trust. ■

INVESTMENT DECISIONS

New figures reveal the best-performing investment sectors

We understand that choosing investments can be difficult, so we are here to support you in making your investment decisions. Whether you're a first-time or an experienced investor, we can help you explore your options.

New figures reveal that UK small caps have been the best performers over the past year to 31 July 2011, followed by trusts that invest in property securities, according to the Association of Investment Companies (AIC).

Annabel Brodie-Smith, Communications Director at the AIC, stated that uncertainty over the past six months from events in Japan and the Eurozone had contributed to what has been dubbed a hippo market – one that wallows about with sudden bursts of volatility.

She said: 'It's almost impossible to time the market, least of all pick the top performers of the future. So a balanced portfolio, taking into account geographical and sector allocation, discounts, gearing and charges, is a good place to start.'

'Cautious investors may also like to consider regular investing, which can help smooth out some of the highs and lows in the price of shares, reducing investors' risk profile. And while it's always interesting to look at short-term trends, above all, investors need to remember that investing is for the long term.'

Adding further fuel to the investing argument against the debt-laden developed economies, the best-performing investment sectors over the longer term have been Asia Pacific, emerging markets and commodities, according to the AIC. ■

PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.



Retirement clinic

Consolidating your pension plans

The reasons people transfer their pensions vary, with some looking for better fund performance and lower charges, and others having been made redundant.

If you have a number of pensions from previous employers you should obtain professional advice as it may be appropriate to consolidate them, although this will depend on a number of different factors you'll need to discuss in full.

INCREASED BUYING POWER

If appropriate, consolidating your pension plans would enable you to bring all your retirement savings together, which could make it easier to manage or increase your choice of investment options – particularly useful if your existing funds are underperforming.

IS TRANSFERRING YOUR PENSION RIGHT FOR YOU?

Pension transfers are a complex area of retirement planning and you should be sure that a transfer is right for you before you proceed.

1. Compare the charges – how do the costs of your current pension compare with those of the potential new provider?

2. Exit fees – some pensions apply an exit fee when you transfer out, so check with your current provider before you transfer.

3. Loss of benefits – check what benefits from your current pension you could lose if you transfer out of it.

4. Compare the investment options – how does the range of investments from your current pension compare to that offered by the new pension provider?

THERE IS A WIDE RANGE OF PENSION TRANSFER OPTIONS AVAILABLE THAT PROVIDE A DIFFERING ARRAY OF BENEFITS AND ARRANGEMENTS. DUE TO THE COMPLEXITY OF PENSION TRANSFER ARRANGEMENTS, ANYONE RESEARCHING THIS ROUTE SHOULD DO SO WITH THE HELP OF PROFESSIONAL FINANCIAL ADVICE. IF YOU WOULD LIKE TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US FOR FURTHER INFORMATION.

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**Source: 'Metlife's '10 years to save for your retirement' publication' May 2011.*

64%

Percentage of working adults aged 50-plus who either do not believe or do not know whether they will ever be financially prepared for retirement*.

26%

Percentage of working adults aged 50-plus who believe they are financially prepared for retirement*.

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.

Pooling your money

Creating a wider spread of investments in your portfolio

If you require your money to provide the potential for capital growth or income, or a combination of both, provided you are willing to accept an element of risk pooled investments could just be the solution you are looking for. A pooled investment allows you to invest in a large, professionally managed portfolio of assets with many other investors. As a result of this, the risk is reduced due to the wider spread of investments in the portfolio.

Pooled investments are also sometimes called 'collective investments'. The fund manager will choose a broad spread of instruments in which to invest, depending on their investment remit. The main asset classes available to invest in are shares, bonds, gilts, property and other specialist areas such as hedge funds or 'guaranteed funds'.

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets with the aim of providing a good return for investors.

Trackers, on the other hand, are passively managed, aiming to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies). They might do this by buying the equivalent proportion of all the shares in the index. For technical reasons the return is rarely identical to the index, in particular because charges need to be deducted.

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an

actively managed fund is paid to invest so as to do better than the index (beat the market) or to generate a steadier return for investors than tracking the index would achieve. However, active management does not guarantee that the fund will outperform the market or a tracker fund.

“ Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets with the aim of providing a good return for investors. ”

UNIT TRUSTS

Unit trusts are a collective investment that allows you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

The unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and for

the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively some funds invest in metals and natural resources, as well as many putting their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as balanced funds. If you wish to marry your profits with your principles you can also invest in an ethical fund.

Some funds invest not in shares directly but in a number of other funds. These are known as multi-manager funds. Most fund managers use their own judgment to assemble a portfolio of shares for their funds. These are known as actively managed funds.

However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE all-share index. These are known as passive funds, or trackers.

OPEN-ENDED INVESTMENT COMPANIES

Open-ended investment companies (OEICs) are stock market-quoted collective investment schemes. Like unit trusts and investment trusts they invest in a variety of assets to generate a return for investors.

An OEIC, pronounced 'oik', is a pooled collective investment vehicle in company form. They may have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth

in the same umbrella fund moving your money from one sub fund to another as your investment priorities or circumstances change. OEICs may also offer different share classes for the same fund.

By being “open ended” OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

You may invest into an OEIC through a stocks and shares Individual Savings Account ISA. Each time you invest in an OEIC fund you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in. ■

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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.



Funding retirement

Rise in the number of older people selling their homes

Falling pension incomes and the rising cost of living have led to a rise in the number of older people selling their homes and moving into rental properties in order to fund their retirement, according to latest research.

Tenant referencing specialist HomeLet said there had been a 16 per cent increase in the – admittedly small number – of people aged between 66 and 70 who have sold their home and become tenants over the past 12 months. The firm said 1,074 people had swapped home ownership for rental accommodation.

It also found that 43 per cent of new tenants in July aged over 66 were previously living in a home they owned, compared to 37 per cent in July 2010. The firm said the fact that about 2 million pensioners in

the UK are living in poverty suggests older people are selling their homes to release equity to fund their increasing living costs.

John Boyle, managing director of HomeLet, said: “Pensioners are already feeling the pinch with the spiralling costs of fuel, energy bills and basic food. Combined with a reduction in income, old people are increasingly struggling to pay to live through their retirement. This suggests the number of pensioners having to sell their home to move into rented properties could increase even more over the coming years.”

The HomeLet survey emerged as a Department for Work and Pensions report on life expectancy in 2011 shows that today’s 20-year-olds are three times more likely to reach 100 than their grandparents (and twice as likely as their parents), and by

2066 there will be more than half-a-million people in the UK aged 100 or above.

The report, which uses forecasts from the Office for National Statistics, also indicates that a girl born in 2011 has a one-in-three chance of living to their 100th birthday. ■

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The critical factor

Choosing the right cover can help ease your financial pressures

You really need to find the right peace of mind when faced with the difficulty of dealing with a critical illness. Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain life-threatening or debilitating (but not necessarily fatal) conditions, such as a heart attack, stroke, certain types/stages of cancer and multiple sclerosis. A more comprehensive policy will cover many more serious conditions, including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs.

It's almost impossible to predict certain events that may occur within our lives, so taking out critical illness cover for you and your family, or if you run a business or company, offers protection when you may need it more than anything else. But not all conditions are necessarily covered, which is why you should always obtain professional advice. In May 2003, insurers adopted new rules set by the Association of British Insurers that tightened the conditions under which you could claim on critical illness insurance policies.

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

The illnesses covered are specified in the policy along with any exclusions

and limitations, which may differ between insurers. Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.

If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

A policy will provide cover only for conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe.

Similarly, some conditions will not be covered if you suffer from them after reaching a certain age, for example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

Very few policies will pay out as soon as you receive diagnosis of any

of the conditions listed in the policy and most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

How much you pay for critical illness cover will depend on a range of factors including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

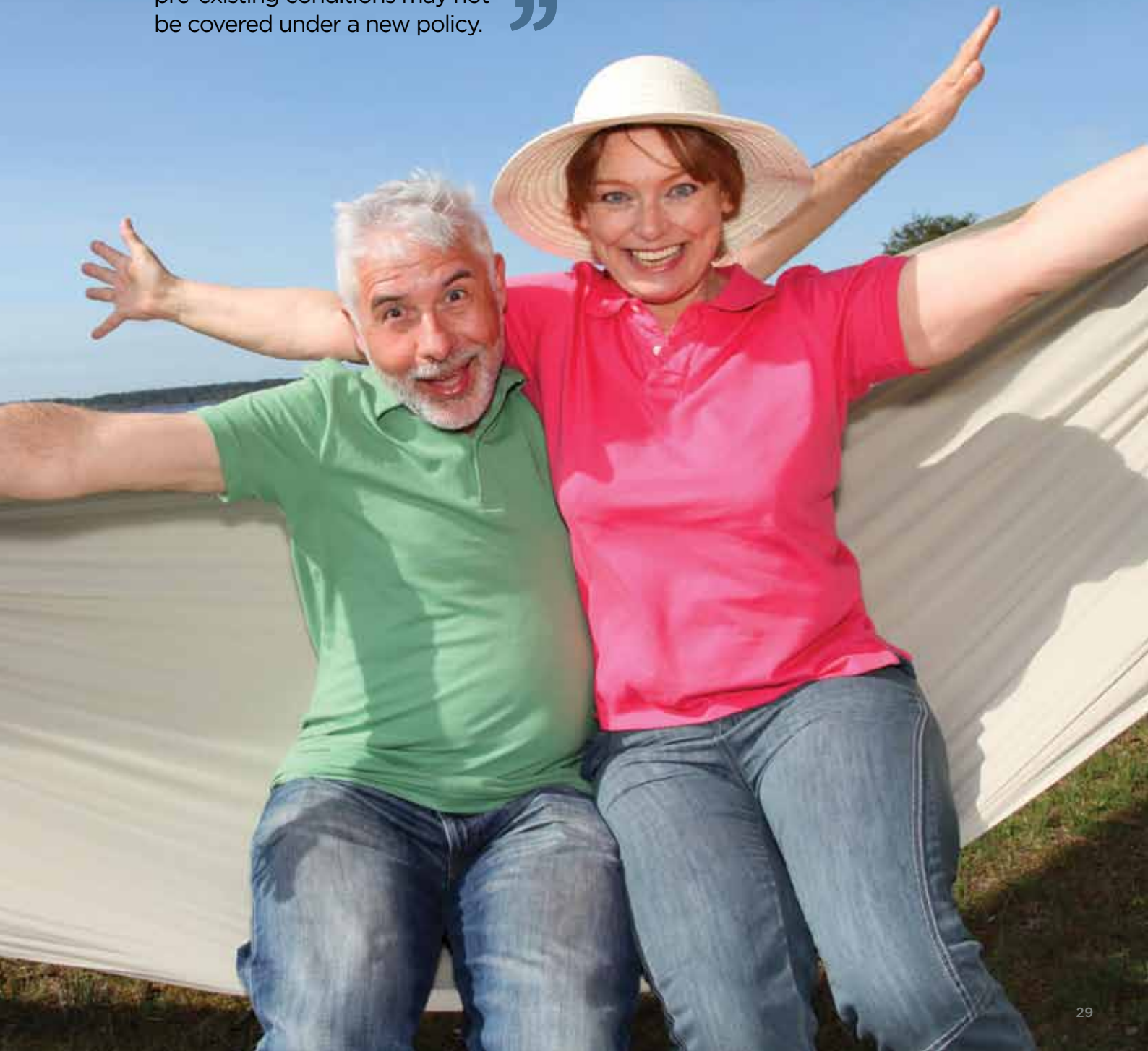
Permanent, total disability is usually included in the policy. Some insurers define 'permanent total disability' as being unable to work as you normally would as a result of sickness, while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

Activities of daily living include:

- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair and back again

The good news is that medical advances mean more people than ever are surviving conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose. Don't leave it to chance - make sure you're fully covered. ■

“ If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy. ”



A new national pension scheme

Helping people save more for their retirement

More than half of workers are not aware that they could be automatically enrolled into a new national pension scheme starting in October 2012 and many are likely to be surprised when employers start taking deductions from their pay, research from HSBC has found.

The National Employment Savings Trust (NEST) is being introduced next year by the government to help people save more for their retirement.

OPTION TO OPT OUT

It will involve workers who are not already a member of a 'Recognised Workplace Pension Scheme'. Employees will be auto-enrolled by their employers and will be given the option to opt out. The employer will eventually have to pay a minimum of 3 per cent (initially this is being phased in starting from 1 per cent paid by the employer and 1 per cent by the employee) of 'qualifying (band) earnings'. The overall minimum contribution will eventually be 8 per cent and if the employer pays the minimum of 3 per cent the employee will have to pay 5 per cent (with 1 per cent of this coming from tax relief).

HSBC found that 23 per cent of people, when told about NEST, said they didn't like the idea of some of their wages being paid into the scheme.

NEW AUTO-ENROLMENT

The new auto-enrolment obligations will impact on employers of all sizes and will be phased in between 2012 and 2016. Employers will have responsibility for paying contributions into a pension – both from them and the employees – as well as communicating with staff and ensuring the pension scheme is compliant.

The hope is that these new auto-enrolment obligations will help the estimated seven million workers who are not putting money aside for their retirement to start saving for tomorrow, today.

While the NEST scheme is available to all employers, it has features that may make it suitable for some and less desirable to others. ■

National Employment Savings Trust is regulated by the Pensions Regulator.

2012
Start of new phased auto-enrolment.

3%
Minimum percentage the employer will eventually have to pay.



“ More than half of workers are not aware that they could be automatically enrolled into a new national pension scheme starting in October 2012 and many are likely to be surprised when employers start taking deductions from their pay, research from HSBC has found. ”