SmartMoney

Lindsay Lockett
Financial Guidance Ltd

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Drawing your pension income

What the new retirement rules could mean for you

How much life insurance do you need?

Protecting your family's financial security

Keeping your wealth in the family

Inheritance Tax planning matters

ISA Surgery

Don't miss the fast approaching deadline

SIPPing a retirement cocktail can pay dividends

Putting you in control of your financial future

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

Lindsay Lockett Financial Guidance Ltd, Foxlowe Cottage, Crowborough Road
Biddulph Moor, Stoke on Trent, Staffordshire, ST8 7NT
Tel : 01782 379071 **Fax :** 0808 2800135 **E-mail :** advice@lindsaylockett.co.uk **Web :** www.lindsaylockett.co.uk

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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 08 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 04 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 (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. Read the full article on page 12.

Also inside this issue, we remind you not to miss the fast-approaching Individual Savings Account (ISA) deadline – you only have until 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.

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 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. ■

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

A pension is a long-term 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. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

WANT TO MAKE MORE OF YOUR MONEY?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
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- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

Name ....

Address ....

....

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.... Postcode ....

Tel. (home) ....

Tel. (work) ....

Mobile ....

Email ....

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

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.

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.

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.

> "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.

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.

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

Drawing your pension income

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 pr 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 do 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).

> "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."

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. ■

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.

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.

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.

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