

Serenity

Financial planning for the life you want.

A Guide to

WEALTH MANAGEMENT

Meeting the needs of wealthy clients
and those aspiring to become wealthier



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A Guide to Wealth Management

Welcome to 'A Guide to Wealth Management.' Whatever your wealth goals might be, we can help you protect and grow your wealth, so that you can enjoy it and pass it on.

As your life changes over time it's important to ensure that your financial objectives continue to meet your needs. We are committed to meeting the needs of wealthy clients and those aspiring to become wealthier. We understand that wealth is more than money, it means something different to everyone.

Our approach takes account of business, personal and family circumstances. As well as your available assets, other important factors we take into account are tax considerations, your financial liabilities and your retirement planning.

Once we have all the information we can then develop a financial plan that will benefit you and your family for generations. So whether you are rapidly progressing in your career, or building your business, and are looking to build your wealth, we provide the professional advice required to ensure you attain your goals.

Equally, if you've already built your wealth and wish to see it grow, our approach to total wealth management can help you continue to achieve this objective.

There are many different ways to grow your wealth. Our skill is in helping you to understand your choices, and then helping you to make the investment decisions that are right for you. That depends on your life priorities, your goals and your attitude to risk.

We will work with you to build a tailored financial plan based on your financial goals and needs and help you put that plan into action. If you would like to discuss the range of personal and corporate services we offer, please contact us for further information.

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7 steps to surviving investment volatility

Many investors may have had a roller-coaster ride recently. Fallout from the eurozone crisis has created the most turbulent period in world stock markets since the downturn began in 2008. However, amid all this gloom there is some good news. The simple truth is that volatility is a fact of investing life; you're often better served staying in the markets over the long term than pulling out. Here's why, and how, you can do it.

1. REMIND YOURSELF WHY YOU INVESTED

Most people invest in order to achieve a better return than they'd receive from other forms of saving, such as bank deposits. While it may be tempting to squirrel away cash in a bank, pulling out of the market when it's falling is one of the worst things you can do as you'll simply crystallise your losses.

If you'd stuck with the FTSE All-Share Index over the past 20 years, your portfolio would have increased by 361 per cent, or 7.94 per cent a year. However, if you'd pulled out and missed the best 20 days' performance, you'd have gained only 60.8 per cent, or 2.4 per cent a year [1]. Remember, though, that past performance isn't a guide to future performance.

2. REMEMBER YOUR OWN TIME HORIZONS AND GOALS

Many investors overreact to short-term market volatility, which isn't usually relevant to their long-term goals. Review your strategy and remind yourself why you're investing – is it for your young children's university fees or are you saving for retirement? These objectives are unlikely to have changed, even if the market has taken a tumble.

3. DON'T PUT ALL YOUR EGGS IN ONE BASKET

The key to long-term investment success is having a good balance of investments – for example, diversify between different types of funds, equities, property and cash. Piling all your money into one asset class is high risk. Check where your funds are invested: spread holdings over different sectors and geographical areas. Review the balance of your assets: are you exposed to too much or too little risk? For instance, if you previously had 50 per cent of your investments in equity-based growth funds, it's likely that market falls will have reduced this share as a percentage of the whole. You should check to see if this new asset allocation matches your risk profile.

4. CHECK YOUR EXPOSURE TO RISK

The younger you are the greater exposure to equities you might want to accept, as you have more time to make up any losses. However, if the recent ups and downs have become too much for you, consider reassessing your attitude to risk.

5. DRIP-FEED YOUR INVESTMENTS

Drip-feeding money into investments at regular intervals allows investors to smooth out risk through 'pound-cost averaging'. This forces you to invest in all conditions, thereby helping to avoid the poor decisions that many people make when trying to second-guess the market. When the market falls, your payment will buy more shares or units in a fund so you'll have a bigger holding when markets recover.

6. TAKE COUNTER MEASURES

Look at the type of investment funds you hold and make sure they are best placed

to give you some protection when markets slump, but also to benefit when they bounce back. Good-quality fixed interest funds are likely to be relatively stable, whereas equity funds will be more volatile, so you should look to hold a combination in the right mix for you. You could perhaps consider absolute return funds, which aim to produce a positive return in all conditions. However, not all have produced the desired result amid the recent volatility and many charge performance fees on top of the annual management charge.

7. CHANGE FUNDS IF THEY'RE CONSISTENTLY UNDERPERFORMING

If certain funds are repeatedly failing to deliver, it's time to assess whether they're worth holding on to or not. Chopping and changing funds may incur management fees though, so you could consider using 'funds of funds', where the fund manager does this for you. [n](#)

The price of units in investment-linked funds depends on the value of the underlying assets and can go down as well as up. You may not get back as much as you invest.

Past performance is not a guide to future performance and should not be used to assess the risk associated with the investment.

As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment. The value and income received from property investments can go down as well as up.

[1] Figures correct to 07/11/11. Source: Standard Life Investments using Thomson Reuters Datastream.

Spreading risk in your portfolio

One of the principal tenets of spreading risk in your portfolio is to diversify your investments whatever the time of year. Diversification is the process of investing in areas that have little or no relation to each other. This is called a 'low correlation'.

Diversification helps lessen what's known as 'unsystematic risk', such as reductions in the value of certain investment sectors, regions or asset types in general. But there are some events and risks that diversification cannot help with – these are referred to as 'systemic risks'. These include interest rates, inflation, wars and recession. This is important to remember when building your portfolio.

THE MAIN WAYS YOU CAN DIVERSIFY YOUR PORTFOLIO

ASSETS

Having a mix of different asset types will spread risk because their movements are either unrelated or inversely related to each other. It's the old adage of not putting all your eggs in one basket.

Probably the best example of this is shares, or equities, and bonds. Equities are riskier than bonds, and can provide growth in your portfolio, but, traditionally, when the value of shares begins to fall bonds begin to rise, and vice versa.

Therefore, if you mix your portfolio between equities and bonds, you're spreading the risk because when one drops the other should rise to cushion your losses. Other asset types, such as property and commodities, move independently of each other and investment in these areas can spread risk further.

SECTOR

Once you've decided on the assets you want in your portfolio, you can diversify further by investing in different sectors, preferably those that aren't related to each other.

For example, if the healthcare sector takes a downturn, this will not necessarily have an impact on the precious metals sector. This helps to make sure your portfolio is protected from falls in certain industries.

GEOGRAPHY

Investing in different regions and countries can reduce the impact of stock market movements. This means you're not just affected by the economic conditions of one country and one government's fiscal policies.

Many markets are not correlated with each other – if the Asian Pacific stock markets perform poorly, it doesn't

necessarily mean that the UK's market will be negatively affected. By investing in different regions and areas, you're spreading the risk that comes from the markets.

Developed markets such as the UK and US are not as volatile as some of those in the Far East, Middle East or Africa. Investing abroad can help you diversify, but you need to be comfortable with the levels of risk that come with them.

COMPANY

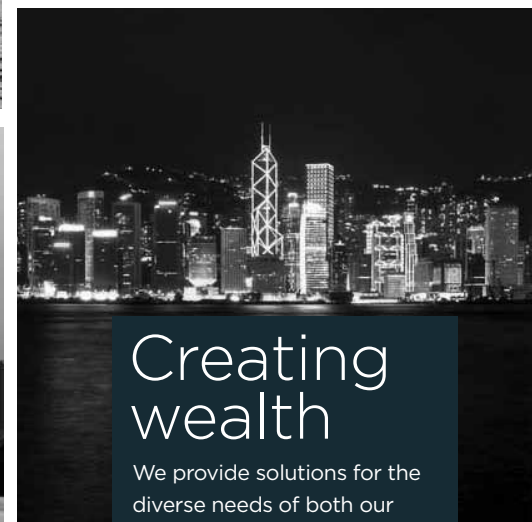
It's important not to invest in just one company. Spread your investments across a range of different companies.

The same can be said for bonds and property. One of the best ways to do this is via a collective investment scheme. This type of scheme invests in a portfolio of different shares, bonds, properties or currencies to spread risk around.

BEWARE OF OVER-DIVERSIFICATION

Holding too many assets might be more detrimental to your portfolio than good. If you over-diversify, you may be holding back your capacity for growth as you'll have such small proportions of your money in different investments that you won't see much in the way of positive results. [n](#)





Pooled investments

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. [n](#)

Creating wealth

We provide solutions for the diverse needs of both our wealthy clients and those who aspire to become wealthy, enabling each individual to structure their finances as efficiently as possible.

There are many different ways to grow your wealth, from ensuring you receive the best rates for short-term cash management, to a more complex undertaking of creating an investment portfolio to grow your wealth for the long-term.

We can help you make informed decisions about the investment choices that are right for you, by assessing your life priorities, goals and attitude towards risk for return. Any number of changing circumstances could cause your wealth to diminish, some inevitable and some unpredictable - new taxes and legislation, volatile markets, inflation and changes in your personal life. Structuring your wealth in a way that minimises the impact of these changes is essential. [n](#)

Reducing the overall level of investment risk

The recent volatility of global markets has tested the nerves of even the most experienced investors, making it a difficult time for individuals who rely on income from investments for some or all of their needs.

To avoid concentrating risk, it is important not to 'put all your eggs in one basket' by investing in just one share or in one asset class. If appropriate to your particular situation spreading capital across different shares and different asset classes can reduce the overall level of risk.

CREATE A DIVERSIFIED PORTFOLIO

There are opportunities to create a diversified portfolio through investing with fund managers who have the experience, talent and robust investment process that can withstand the ever-changing economic and financial climate and deliver a return above inflation over the medium to long term.

Funds are typically seen as a way to build up a lump sum of money over time, perhaps for retirement, but they can also be used to provide you with a regular income.

TYPE OF INCOME FUNDS

There are four main types of income fund:

Money Market Funds – pay interest and aim to protect the value of your money.

Bond (Fixed Income) Funds – pay a higher rate of interest than cash deposits, but there is some risk that the value of your original investment will fall.

Equity Income Funds – the income comes from dividends paid to shareholders. In return for some risk to your capital, you may get a more regular income than you

would from cash, and that income, as well as your capital, may increase over time.

Property Funds – pay income from rents, but the value of your investment can fall as well as rise.

There are also mixed asset funds, which invest your money in both bonds and equities.

GENERATING INCOME

INTEREST FROM CASH OR MONEY MARKET FUNDS

The income varies in line with the interest rate set by the Bank of England. The fund's investment manager will aim to get the best rate available, helped by that fact that, with large sums to deposit, funds can often get better rates than individual investors. The capital amount you originally invested is unlikely to go down (subject to the limits for each deposit under the Financial Services Compensation Scheme). If the interest rate is lower than the rate of inflation, however, the real spending value of your investment is likely to fall.

FIXED INTEREST FROM BONDS

Bonds are issued by governments (known as gilts in the UK) and companies (corporate bonds) to investors as a way to borrow money for a set period of time (perhaps 5 or 10 years). During that time, the borrower pays investors a fixed interest income (also known as a coupon) each year, and agrees to pay back the capital amount originally invested at an agreed future date (the redemption date). If you sell before that date, you will get the market price, which may be more or less than your original investment.

Many factors can affect the market price of bonds. The biggest fear is that the issuer/borrower will not be able to pay

its lenders the interest and ultimately be unable to pay back the loan. Every bond is given a credit rating. This gives investors an indication of how likely the borrower is to pay the interest and to repay the loan. Typically, the lower the credit rating, the higher the income investors can expect to receive in return for the additional risk.

A more general concern is inflation, which will erode the real value of the interest paid by bonds. Falling inflation, often associated with falling bank interest rates, is therefore, typically good news for bond investors. Typically, bond prices rise if interest rates are expected to fall, and fall if interest rates go up.

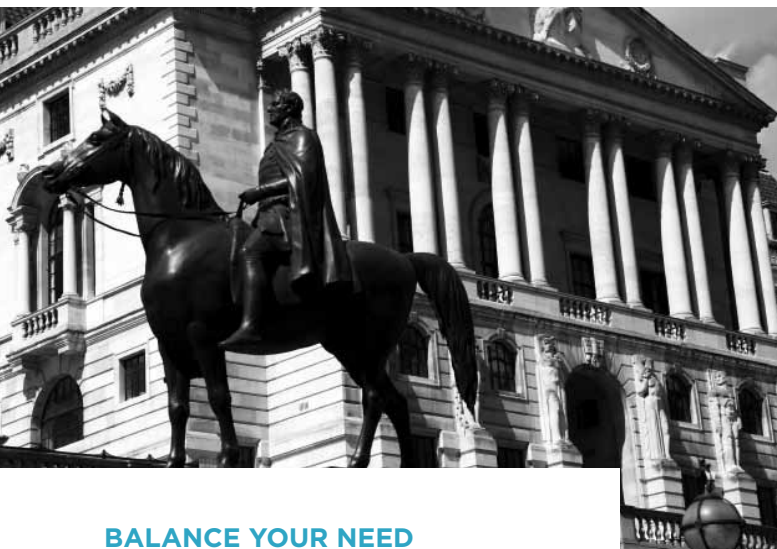
If you invest in bonds via a fund, your income is likely to be steady, but it will not be fixed, as is the case in a single bond. This is because the mix of bonds held in the fund varies as bonds mature and new opportunities arise.

DIVIDENDS FROM SHARES AND EQUITY INCOME FUNDS

Many companies distribute part of their profits each year to their shareholders in the form of dividends. Companies usually seek to keep their dividend distributions at a similar level to the previous year, or increase them if profit levels are high enough to warrant it.

RENTAL INCOME FROM PROPERTY AND PROPERTY FUNDS

Some people invest in "buy-to-let" properties in order to seek rental income and potential increase in property values. Property funds typically invest in commercial properties for the same reasons, but there are risks attached. For example, the underlying properties might be difficult to let and rental yields could fall. This could affect both the income you get and the capital value.



BALANCE YOUR NEED FOR A REGULAR INCOME WITH THE RISKS

The income from a fund may be higher and more stable than the interest you get from cash deposited in a bank or building society savings account, but it can still go up and down. There may be some risk to the capital value of your investment, but if a regular income is important to you and you do not need to cash-in your investment for now, you may be prepared to take this risk.

INCOME FUNDS OF THE SAME TYPE ARE GROUPED IN SECTORS

The main sectors for income investors are: Money Market; Fixed Income (including UK Gilts, UK index-linked Gilts, Corporate Bond, Strategic Bond, Global Bond and High Yield); Equity Income; Mixed Asset (ie. UK Equity and Bond) and Property.

LOOK AT THE FUND YIELD

This figure allows you to assess how much income you may expect to get from a fund in one year. In the simplest form, it is the annual income as a percentage of the sum invested. Yields on bond funds can also be used to indicate the risks to your capital.

DECIDE HOW FREQUENTLY YOU WISH TO RECEIVE YOUR INCOME

All income funds must pay income at least annually, but some will pay income distributions twice a year, quarterly or monthly, so you can invest in a fund which has a distribution policy to suit your income needs.

SELECT INCOME UNITS/SHARES IF YOU NEED CASH REGULARLY

The income generated in a fund is paid out in cash to investors who own income units. If you choose the alternative - accumulation units/shares - your share of the income will automatically be reinvested back into the fund. [n](#)



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. [n](#)



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. [n](#)

Investment trusts

Investment trusts are based upon fixed amounts of capital divided into shares. This makes them closed ended, unlike the open-ended structure of unit trusts. They can be one of the easiest and most cost-effective ways to invest in the stock market. Once the capital has been divided into shares, you can purchase the shares. When an investment trust sells shares, it is not taxed on any capital gains it has made. By contrast, private investors are subject to capital gains tax when they sell shares in their own portfolio.

Another major difference between investment trusts and unit trusts is that investment trusts can borrow money for their investments, known as gearing up, whereas unit trusts cannot. Gearing up can work either to the advantage or disadvantage of investment trusts, depending on whether the stock market is rising or falling.

Investment trusts can also invest in unquoted or unlisted companies, which may not be trading on the stock exchange either because they don't wish to or because they don't meet the given criteria. This facility, combined with the ability to borrow money for investments, can however make investment trusts more volatile.

The net asset value (NAV) is the total market value of all the trust's investments and assets minus any liabilities. The NAV per share is the net asset value of the trust divided by the number of shares in issue. The share price of an investment trust depends on the supply and demand for its shares in the stock market. This can result in the price being at a 'discount' or a 'premium' to the NAV per share.

A trust's share price is said to be at a discount when the market price of the trust's shares is less than the NAV per share. This means that investors are able to buy shares in the investment trust at less than the underlying stock market value of the trust's assets.

A trust's shares are said to be at a premium when the market price is more than the NAV per share. This means that investors are buying shares in the trust at a higher price than the underlying stock market value of the trust's assets. The movement in discounts and premiums is a useful way to indicate the market's perception of the potential performance of a particular trust or the market where it invests. Discounts and premiums are also one of the key differences between investment trusts and unit trusts or OEICs. [n](#)

Individual Savings Accounts

An Individual Savings Account (ISA) is a tax-efficient wrapper. Within an ISA you pay no capital gains tax and no further tax on the income, making it one of the most tax-efficient savings vehicles available.

The earlier and the more you add to your ISA the better. But the crucial thing to remember is that every tax year – which runs from 6th April one year to 5th April the next year – you're only allowed to invest a certain amount in an ISA. This is known as your annual ISA allowance.

If you are planning to open or transfer an existing ISA, you have until 5th April, but don't leave it until this date. If you miss the deadline, you'll lose your £11,280 allowance for the 2012/13 tax year forever.

Q: What types of ISAs are there?

A: There are two main types of ISAs: Cash ISAs and Stocks & Shares ISAs.

Q: What is a Cash ISA?

A: Cash ISAs work in the same way as normal savings accounts. You choose if you want a fixed rate account, an easy access (or instant access) account or a regular savings account. You don't pay income tax on the interest you earn. For every £1 of interest you earn on your savings, instead of the taxman pocketing 20p of income tax (if you're a basic rate taxpayer), you get to keep it all.

Q: What is a Stocks and Shares ISA?

A: A Stocks & Shares ISA is another option open to you if you're looking to

invest for at least 5 to 10 years. With a Stocks & Shares ISA you can invest in individual stocks and shares or investment funds. Any profit you make is not subject to capital gains tax. However, you pay 10 per cent tax on dividend earnings.

Q: Who can save in an ISA?

A: Anyone who is 16 or over and a UK resident can save money in a tax-efficient Cash ISA but to save in a Stocks & Shares ISA you need to be at least 18.

Q: How much can I invest?

A: As of 6th April 2012, the ISA limit increased for everyone £11,280 per tax year. Of this, the maximum amount you can put into a Cash ISA is £5,640, and then the remainder can be invested into a Stocks & Shares ISA.

Alternatively, you may choose to allocate the entire £11,280 into a Stocks & Shares ISA.

Q: What is a Junior ISA?

A: A Junior ISA is a tax-efficient way to save for a child's future and can be set up in the child's name by a parent or guardian. You can set up a Stocks & Shares ISA or Cash ISA or a combination of both and any investment growth is free of UK Income and Capital Gains Tax. The annual investment limit is currently £3,600, but this will rise in line with inflation from 2013. The money is locked away until the child reaches the age of 18, giving the investment time to grow.

The child is the beneficial owner of the Junior ISA. Children are not eligible for a Junior ISA if they have or were eligible for a Child Trust fund.

Q: When should I invest?

A: As long as you have not exceeded the current £11,280 ISA limit you can invest in an ISA at any point during the tax year and, depending on the ISA provider, you can allocate lump sums or monthly contributions that fit around your lifestyle.

Q: Will ISAs always be tax-efficient?

A: The government has promised to keep ISAs indefinitely. However, the tax treatment of ISAs may change in the future

Q: Can I transfer my existing ISA money?

A: You can transfer the money saved in a Cash ISA to a Stocks & Shares ISA, even if it was saved in previous tax years, without affecting your annual ISA allowance. You can also transfer some or all of the money held in previous tax year Cash ISAs into a Stocks & Shares ISA. A stocks and shares investment is a medium to long term investment, but remember the value of your investment can go down as well as up, and you may get back less than you originally invested, and that tax rules may change in the future and taxation will depend on your personal circumstances. [n](#)



Investment bonds

An investment bond is a single premium life insurance policy and is a potentially tax-efficient way of holding a range of investment funds in one place. They can be a good way of allowing you to invest in a mixture of investment funds that are managed by professional investment managers.

Each bond is usually designed to provide benefits for different types of investors but a common element is that they aim to produce long term capital growth and/or generate a long-term return. When you invest in a bond you will be allocated a certain number of units in the funds of your choice or those set out by the conditions of the bond.

Each fund invests in a range of assets and the price of your units will normally rise and fall in line with the value of these assets. Investment bonds are single premium life insurance policies, meaning that a small element of life insurance is provided. This is paid out after your death.

No capital gains tax is paid on the gains that you make, and you do not pay basic rate income tax on any income. As a higher rate taxpayer you may become liable to income tax at a rate equal to the difference between the basic rate and the higher rates (20 per cent), but not until your cash in your bonds or make partial withdrawals of over 5 per cent per annum of your original investment. This is because there is a special rule which allows you to make annual withdrawals from your bonds of up to 5 per cent for 20 years without any immediate tax liability. It is possible to carry these 5 per cent allowances forward, so if you make no withdrawals one year, you can withdraw 10 per cent of your investment the next, without triggering a tax charge. [n](#)

Investing for income

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. 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 consider some of these 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. [n](#)



Income distribution bonds

Distribution bonds are intended to provide income with minimal affects on your original investment. They attempt to ensure that any tax-free returns, up to 5 per cent and usually in the form of dividends, do not greatly reduce your original investment, thereby providing the opportunity for future long-term growth. They also combine two different asset classes, equities and bonds, inside one investment wrapper.

Distribution bonds tend to have a higher amount invested in UK equities than other types of bonds, so they may be riskier. Nevertheless, distribution bonds normally have a strong income flow to them from reliable investments to increase their security. A larger exposure to equities as part of their overall investment mix provides the potential for longer term growth.

Depending on the performance, the income produced from distribution bonds will fluctuate, and for tax purposes, withdrawals can be deferred for up to 20 years. [n](#)



Financial independence

Whatever your age, it's never too early to begin planning for your retirement. If you have achieved a high standard of living today, you will want to ensure that you can support this lifestyle for the rest of your life.

We work with you to consider all the options, based on your needs and risk appetite. One option you may need to consider is pension provision. Thanks to legislation that raised the limits on tax-efficient savings within UK pensions, it makes sense to evaluate this important retirement planning tool. [n](#)

Offshore investments

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

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

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

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose

to have access to investments or savings denominated in another currency.

Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad, you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

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

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

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

Self-Invested Personal Pensions

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 Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss.

FREEDOM OF CHOICE

Essentially, a SIPP is a pension wrapper that is capable of holding a wide range of investments and providing you with the same tax advantages as other personal pension plans. However, they are more complex than conventional products and it is essential you seek expert professional advice.

SIPPs 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 his or her 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.

MORE CONTROL

You can choose from a number of different investments, unlike other traditional pension schemes, which may give you more control over where your money is invested. A SIPP offers a 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.

Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

TAX BENEFITS

There are significant tax benefits. The government contributes 20 per cent of every gross contribution you pay – meaning that a £1,000 investment in your SIPP costs you just £800. If you are a higher or additional rate taxpayer, the tax benefits could be even greater. In the above example, higher rate (40 per cent) taxpayers could claim back as much as a further £200 via their tax return. Additional rate (50 per cent) taxpayers could claim back as much as a further £300.

CARRY FORWARD

There is an annual maximum tax-relievable contribution level of £50,000 for 2012/13. 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 potentially be contributed. Pensionable income does not include investment income, rental income or pension income however.

OTHER CONSIDERATIONS

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 are often 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. [n](#)



Pensions

Money invested into a pension receives tax relief. That means your pension contributions (subject to limits set by the government) are increased by the percentage amount of your income tax bracket. So, a non- or a basic-rate taxpayer only has to pay 80 pence for each £1 that is invested in their pension (an uplift of 20 per cent). Higher-rate taxpayers effectively only pay 60 pence for each £1 invested (an uplift of 40 per cent) and additional-rate taxpayers (in the 50 per cent band) can benefit from 50 per cent relief.

Non-working individuals can invest up to £3,600 in a pension each year, but because of the tax relief this will only cost £2,880. Adults can also make such payments for children.

People who have taxable income in excess of £100,000 have their personal annual tax allowance reduced at a rate of £1 for every £2 of income over this threshold. Currently 25 per cent of your pension fund can be taken as a lump sum.

FLEXIBLE DRAWDOWN

Pension legislation is always on the move and keeping up to date with the latest changes could open up new opportunities for you in retirement. In April 2011, some of the most significant changes in pension legislation for five years were announced.

Many of these changes were designed to limit what the government clearly sees as over-generous tax relief concessions. But other changes have created the very appealing prospect, for people aged 55 or more, of gaining more control over when and how they can use their retirement savings.

Under the current rules, if you meet certain eligibility criteria, you can now take as much as you want from your pension, without the maximum income restrictions that apply to conventional drawdown arrangements. To be eligible for this

facility – known as ‘flexible drawdown’ – you have to show that you already have a ‘secure pension income’ of £20,000 per year, in addition to your drawdown plan. This Minimum Income Requirement (MIR) is considered a safety net to prevent retirees draining their funds.

Income from registered pension schemes count towards the MIR – such as lifetime annuities, occupational pensions, or the state pension. But income from pension schemes with fewer than 20 members, typically Small Self-Administered Schemes, will not count. You must also be already receiving the income for it to be counted – it cannot be based on future income.

As the name suggests this option is more flexible than income drawdown. Qualifying for this option removes the cap on the income you can take. There are no income limits at all and you can draw as much income as you like when you like. However flexible drawdown will not be available to everyone and there are certain criteria that must be met before you can choose it. It is also worth remembering any income is subject to tax at your highest rate.

While, for many people, buying an annuity is likely to remain the most appropriate method of accessing their pension income, some will want to take advantage of these enhanced drawdown facilities.

Flexible drawdown could, for example, be used to meet one-off large expenditure items as they arise or to optimise your tax liabilities. It could also be a way to pass money through the generations, either by ‘gifting’ regular payments, for example into trusts, or as pension contributions to children using ‘normal expenditure’ rules so as to help avoid inheritance tax.

In moving money out of your pension fund before you die, you will be paying income tax on such payments but at a

rate that is lower than the 55 per cent tax charge payable on a lump-sum payment from your pension fund when you die.

Another age-restricted benefit where the rules have been eased is the opportunity to take tax-free cash – typically a quarter of your pension pot – when you first start to take your pension benefits. Until April 2011, if you hadn’t taken your tax-free cash by age 75, you lost the chance to do so. Now that restriction is removed too.

Depending on your circumstances, all these changes may well sound like good news, but there’s one important thing to be aware of. Just because the rules about when and how you take pension benefits have changed, it doesn’t mean your pension contract will have changed as well.

If the terms of your contract have not been updated to reflect the new legislation, you could find that you can’t take advantage of them. You could still find yourself obliged to buy an annuity at age 75. And if you haven’t taken your tax-free lump sum at that age, you could still lose the opportunity to do so.

ANNUITIES

You’ve spent years putting money aside into a pension scheme, but what actually happens once you retire? Sadly, it’s not as simple as simply withdrawing the money. You must now convert your pension pot into an income, which is typically done by buying an annuity.

An annuity is a financial product where you exchange a lump sum for income. In the case of pension schemes, you usually exchange your pension fund for an income payable for the rest of your life, often called a compulsory purchase annuity.

Anyone who has a lump sum and wants to convert this into an income can buy an annuity, but most people come across them for the first time when they’re coming up to retirement and need to

convert all or part of their pension fund into an income.

You'll need to buy an annuity with funds from any personal pensions, stakeholder pensions and most money-purchase employer schemes. The type of annuity you buy with your pension fund money is called a compulsory purchase annuity or pension annuity. If you belong to an employer's final salary scheme, your pension is usually paid directly from the scheme, so you don't have to think about annuities.

Thousands of people should end up with bigger pensions as new rules will force insurers to inform customers about better annuity options. The Association of British Insurers' (ABI) new code of conduct forces insurers to give more information about how consumers can 'shop around' for a better deal, while ensuring that those with health problems receive a higher income as a result.

Currently, according to the ABI, more than half of all investors who buy an annuity – which pays a fixed income for life – simply buy the default annuity deal from their current pension provider. As a result many end up buying the wrong type of annuity or effectively locking into an uncompetitive pension deal for the rest of their lives. Shopping around for the best annuity deal could increase the size of a pension by over a third. A recent report from the National Association of Pension Funds claimed that this was costing pensioners more than £1bn in lost retirement income.

The new rules stop insurers from including an application form in the information pack sent to customers approaching retirement, making it less likely that people will simply buy the first annuity they see. These 'retirement packs' have been redesigned to place greater emphasis on the benefits of shopping around. Crucially, where insurers are selling an annuity to one of their existing customers, they will be required to ask about their circumstances and medical conditions before providing a quote. [n](#)

Annuities

An annuity is an investment which will pay you an income for the rest of your life, no matter how long you live. This is achieved by handing over your pension fund to an insurance company in return for an annuity when you retire. The insurer then guarantees to pay you an income for the rest of your life via the annuity.

Increasing longevity means that your annuity will have to last you for possibly 20 or even 30 years of retirement, making decisions around inflation proofing your income very important.

DIFFERENT TYPES OF ANNUITY

In the UK, there are basically two types of annuity:

- n Pension annuities (compulsory purchase)
- n Purchased life annuities (voluntary purchase).

All annuities share the following characteristics:

- n They pay a level of guaranteed income;
- n They turn a lump sum into a stream of future income;
- n Lifetime annuities guarantee to pay an income for as long as you are alive, no matter how long you live;

When you die, payments stop, unless you have chosen a joint life annuity, a guaranteed payment period or a value protected (money back) annuity.

THE 'OPEN MARKET OPTION' – GETTING THE BEST ANNUITY

The annuity market is very competitive and rates differ between annuity providers. You can substantially increase your pension income by purchasing your annuity from the company which pays the most income. This is called 'exercising the Open Market Option.'

Annuities have a number of important and valuable options that allow you to tailor the income to meet your personal circumstances. The most important options are as follows:

SINGLE OR JOINT

A single life annuity pays a secure level of income, but stops when you die. If you are married, it is possible to have a joint life annuity. This means that annuity payments will continue to your partner if you die first.

You can choose how much income your partner will receive after you have died. For example, a 50 per cent joint life annuity means that when you die, your partner will receive 50 per cent of your pension until he or she dies. But be aware that buying a guarantee will reduce the income payment slightly.

GUARANTEE PERIODS

You can purchase a five or 10 year guarantee to ensure that if you die soon after annuity purchase, your spouse will continue to receive your annuity income for five or 10 years.

Buying a guarantee will reduce the income payment slightly, but this is a valuable option if you want peace of mind.

If you select a five year guarantee (which is the norm), and died two years after purchase, your estate would continue to receive an income for the next three years.

ANNUITY PROTECTION

It is also possible to buy a 'money back' or 'value protected' annuity. If you die before reaching age 75, and you have not received a certain amount of annuity payments by that time, the balance will be paid as a lump sum. This lump sum has the rather clumsy name of 'an annuity protection lump sum death benefit' and is taxable at 35 per cent.

At present the annuity protection option is only offered by a small number of annuity providers, mainly those which offer enhanced annuity rates.

ESCALATING ANNUITY

A level annuity pays the highest income at the start and does not increase in the future, whereas an escalating annuity starts at a lower level, but increases each

year. The increases can be constant, for instance, increasing by 3 per cent each year, or the increases can be linked to changes in the retail price index, more commonly known as index linking.

It is only natural to want the highest income, but you should not forget the effects of inflation. An increasing annuity may start lower, but it will pay out more income in the future. The corrosive effect of inflation should not be underestimated.

ENHANCED ANNUITIES

If you are a smoker, in poor health or have a life reducing medical condition it is worth ascertaining whether you are eligible for an 'enhanced' annuity. This may pay a higher income because a medical condition, which is likely to reduce your lifespan, means that the insurer probably will not have to pay out for as long as for someone in good health.

There are three basic types of enhanced annuities:

LIFESTYLE ANNUITIES

These take into account certain behavioural and environmental factors, as well as medical factors to determine if you have a reduced life expectancy.

Any factor that may reduce life expectancy may be considered. These include smoking (10 cigarettes, or the equivalent cigars or tobacco, a day for the last 10 years), obesity/high cholesterol, hypertension/high blood pressure and diabetes.

IMPAIRED LIFE ANNUITIES

An impaired life annuity pays an even higher income for those who have significantly lower life expectancy. The insurer will require a medical report from your doctor (there is no need for you to have a medical examination).

Medical conditions such as heart attacks, heart surgery or angina, life threatening cancers, major organ diseases, such as:

liver or kidney and other life threatening illnesses such as Parkinson's and strokes will be considered.

IMMEDIATE NEEDS ANNUITIES

These are designed for an elderly person who is terminally ill and about to enter a nursing home for the final years of their life. A lump sum payment will buy an immediate needs annuity, which guarantees payment of the elderly person's care until they die. These annuities are expected to normally pay out for around two to three years only.

WITH PROFITS ANNUITIES

With profit annuities pay an income for life, but the insurance company invests your pension fund in a with profits fund, (rather than fixed interest securities as happens with a conventional annuity).

A with profits annuitant therefore benefits from any future profits, but will also share in any of the losses in the with profit fund. You have to choose an 'assumed bonus rate' (ABR) of say three to 5 per cent.

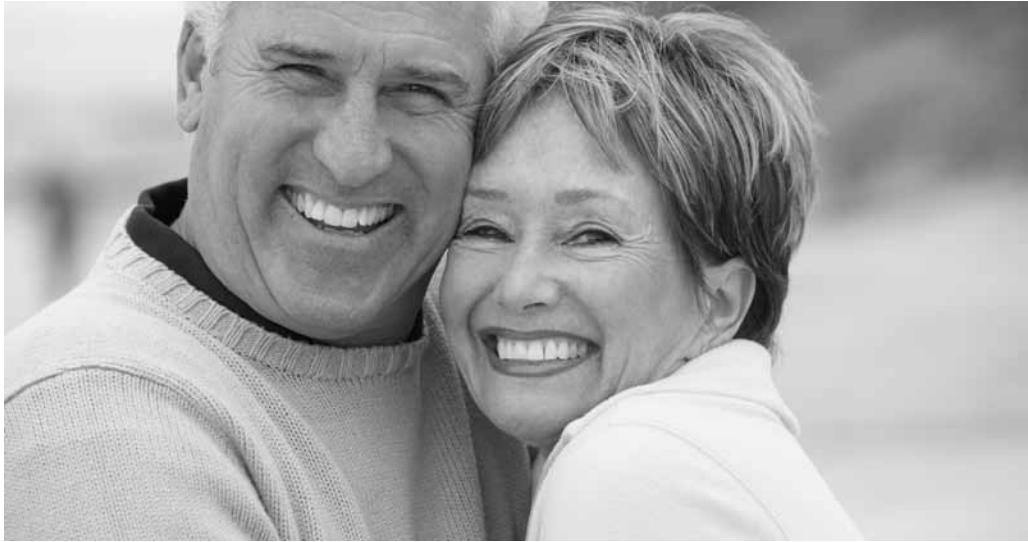
As a rule of thumb, if the bonus actually paid by the insurance company exceeds the ABR, your income will rise. If it is less than your chosen ABR, your income will fall. This means that you have to be prepared to receive a fluctuating income, so they are only suitable for people who can afford to take this risk.

With-profits annuities have the normal annuity options, namely single or joint life, and a choice of guaranteed periods and payment frequencies.

FLEXIBLE ANNUITIES

A flexible annuity combines the advantages of an income for life with the advantages of a certain amount of flexibility and control over income payments, investment options and death benefits.

When a traditional (non-profit) annuity is set up, the options selected cannot be changed at a later date even if your circumstances change. For instance, if it is a joint life annuity and your partner dies first, the annuity cannot be re-priced to reflect the higher rates for a single life annuity. But a "flexible annuity" gives you income flexibility, investment control and choice of death benefits. [n](#)





Qualifying for an enhanced retirement income

Nearly three quarters (72 per cent) of UK adults aged 55 and over are unaware that certain medical conditions could entitle them to a higher level of pension income through their annuity provider, according to research [1] from MGM Advantage.

The research also reveals that 70 per cent of retired people are potentially missing out on a higher income in their retirement because they are not taking advantage of the higher income offered by providers if they have underlying health conditions that would qualify them for an enhanced annuity. Qualifying conditions for an enhanced annuity include high blood pressure, high cholesterol, heart disease and diabetes.

A HIGHER LEVEL OF INCOME IN RETIREMENT

Furthermore, 71 per cent of employed people aged 55 plus are also unaware that certain medical conditions could entitle them to a higher level of income once they have retired. Nearly four in five (78 per cent) women aged 55 plus and nearly two thirds (65 per cent) of men aged 55 plus fail to understand that they could be eligible for higher

income levels in retirement. These are people who are fast approaching retirement and should already be thinking about their retirement income options, especially when living costs and longevity are consistently rising.

UNDERLYING HEALTH CONDITIONS

It is an unfortunate fact of life that as we get older, we are more at risk of getting underlying health conditions. If appropriate, those buying an annuity should have a health check and be sure to inform their annuity provider of any health conditions to see if they qualify for an enhanced annuity. The difference between a standard and an enhanced annuity can be significant and could make a real difference, particularly when the cost of living is squeezing finances.

QUALIFYING FOR A HIGHER PENSION INCOME

According to MGM Advantage, 40 per cent of UK adults aged 55 and over have or have had high blood pressure and 33 per cent have had high cholesterol, both of which are

conditions that could qualify them for a higher pension income.

However, one in seven (14 per cent) of over 55s still working said it had been more than five years since they last had a health check, with a further 11 per cent not able to remember when they last had a test.

GETTING THE BEST ANNUITY RATE POSSIBLE

To ensure you are getting the best annuity rate possible, you should also exercise the Open Market Option and shop around for the best annuity rate. MGM Advantage warns that people who do not mention any underlying health issue could risk losing out financially as enhanced annuities pay out on average 20.68 per cent more for men and 22.15 per cent more for women [2]. [n](#)

[1] The research was conducted online by Research Plus between 7-17 October 2011 with 2,086 UK adults aged 55 years and over, of which 1,261 were retired and 825 non retired.

[2] According to stats from the MGM Advantage Annuity Index September 2011.

Consolidating pensions

Most people, during their career, accumulate a number of different pension plans. Keeping your pension savings in a number of different plans may result in lost investment opportunities and unnecessary exposure to risk. However not all consolidation of pensions will be in your best interests. You should always look carefully into the possible benefits and drawbacks and if unsure seek professional advice.

KEEPING TRACK OF YOUR PENSION PORTFOLIO

It's important to ensure that you get the best out of the contributions you've made, and keep track of your pension portfolio to make sure it remains appropriate to your personal circumstances. Consolidating your existing pensions is one way of doing this.

Pension consolidation involves moving, where appropriate, a number of pension plans – potentially from many different pensions' providers – into one single plan. It is sometimes referred to as 'pension switching.'

Pension consolidation can be a very valuable exercise, as it can enable you to:

- n Bring all your pension investments into one, easy-to-manage wrapper
- n Identify any underperforming and expensive investments with a view to switching these to more appropriate investments
- n Accurately review your pension provision in order to identify whether you are on track

WHY CONSOLIDATE YOUR PENSIONS?

Traditionally, personal pensions have favoured with-profits funds – low-risk investment funds that pool the policyholders' premiums. But many of these are now heavily invested in bonds to even out the stock market's ups and downs and, unfortunately, this can lead to diluted returns for investors.

It's vital that you review your existing pensions to assess whether they are still meeting your needs – some with-profits funds may not penalise all

investors for withdrawal, so a cost-free exit could be possible.

FOCUSING ON FUND PERFORMANCE

Many older plans from pension providers that have been absorbed into other companies have pension funds which are no longer open to new investment, so-called 'closed funds'. As a result, focusing on fund performance may not be a priority for the fund managers. These old-style pensions often impose higher charges that eat into your money, so it may be advisable to consolidate any investments in these funds into a potentially better performing and cheaper alternative.

ECONOMIC AND MARKET MOVEMENTS

It's also worth taking a close look at any investments you may have in managed funds. Most unit-linked pensions are invested in a single managed fund offered by the pension provider and may not be quite as diverse as their name often implies. These funds are mainly equity-based and do not take economic and market movements into account.

LACK OF THE LATEST INVESTMENT TECHNIQUES

The lack of alternative or more innovative investment funds, especially within with-profits pensions – and often also a lack of the latest investment techniques – mean that your pension fund and your resulting retirement income could be disadvantaged.

SIGNIFICANT EQUITY EXPOSURE

Lifestyling is a concept whereby investment risk within a pension is managed according to the length of time to retirement. 'Lifestyled' pensions aim to ensure that, in its early years, the pension benefits from significant equity exposure. Then, as you get closer to retirement, risk is gradually reduced to prevent stock market fluctuations reducing the value of your pension. Most old plans do not offer lifestyling – so fund volatility will continue right up to the point you retire. This can be a risky strategy and inappropriate for those approaching retirement.

Conversely, more people are now opting for pension income drawdown, rather than conventional annuities. For such people, a lifestyled policy may be inappropriate. n



Wealth protection

Whatever happens in life, we can work with you to make sure that you and your family is provided for. Premature death, injury and serious illness can affect the most health conscious individuals and even the most diligent workers can be made redundant.

One important part of the wealth management process is to develop a protection strategy that continually remains relevant to your situation. We can help you put steps in place to protect your standard of living, and that of your family, in the event of an unexpected event. We achieve this by assessing your existing arrangements and providing you with guidance on how to protect your wealth and family.

Planning your legacy and passing on your wealth is another area that requires early planning. You might want it to pass directly to family members. You might want to leave a philanthropic legacy. You may even wish to reduce the effect of inheritance tax on your estate and consider the use of family trusts or charitable foundations. Or your wealth might encompass businesses, property and investments in the UK and abroad that require specialist considerations. [n](#)

Locating a lost pension

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

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

To trace a pension scheme by phone or post the Pension Tracing Service can be contacted by calling 0845 6002 537. Telephone lines are open Monday to Friday 8.00am to 6.00pm.

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

- [n](#) the full name and address of your employer who ran the occupational pension scheme you are trying to trace. Did your employer

change names, or was it part of a larger group of companies?

- [n](#) the type of pension scheme you belonged to. For example was it an occupational pension scheme, personal pension scheme or a group personal pension scheme?
- [n](#) when did you belong to this pension scheme?

FOR OCCUPATIONAL PENSION SCHEMES:

- [n](#) did your employer trade under a different name?
- [n](#) what type of business did your employer run?
- [n](#) did your employer change address at any time?

FOR PERSONAL PENSION SCHEMES:

- [n](#) what was the name of your personal pension scheme?
- [n](#) what address was it run from?
- [n](#) what was the name of the insurance company involved with your personal pension scheme?



Making the right decision

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 which could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed. We can make sure that you are able to take the right decisions to deliver peace of mind for you and your family in the event of death, if you are too ill to work or if you are diagnosed with a critical illness.

You can choose protection-only insurance, which is called 'term insurance'. In its simplest form, it pays out a specified amount if you die within a selected period of years. If you survive, it pays out nothing. It is one of the cheapest ways overall of buying the cover you may need.

Alternatively, a whole-of-life policy provides cover for as long as you live.

LIFE ASSURANCE OPTIONS

Whole-of-life assurance plans can be used to ensure that a guaranteed lump sum is paid to your estate in the event of your premature death. To avoid inheritance tax and probate delays, policies should be set up under an appropriate trust.

Level term plans provide a lump sum for your beneficiaries in the event of your death over a specified term.

Family income benefit plans give a replacement income for beneficiaries on your premature death.

Decreasing term protection plans pay out a lump sum in the event of your death to cover a reducing liability for a fixed period, such as a repayment mortgage.

Simply having life assurance may not be sufficient. For instance, if you contracted a near-fatal disease or illness, how would you cope financially? You may not be able to work and so lose your income, but you are still alive so your life assurance does not pay out. And to compound the problem, you may also require additional expensive nursing care, have to adapt your home or even move to another more suitable property.

Income Protection Insurance (IPI) formerly known as permanent health insurance would make up a percentage of your lost income caused by an illness, accident or disability. Rates vary according to the dangers associated with your occupation, age, state of health and

gender but IPI is particularly important if you are self employed or if you do not have an employer that would continue to pay your salary if you were unable to work.

If you are diagnosed with suffering from one of a number of specified 'critical' illnesses, a critical illness insurance policy would pay out a tax-free lump sum if the event occurred during the term of your policy. Many life insurance companies offer policies that cover you for both death and critical illness and will pay out the guaranteed benefit on the first event to occur.

Beyond taking the obvious step of ensuring that you have adequate insurance cover, you should also ensure that you have made a Will. A living Will makes clear your wishes in the event that, for example, you are pronounced clinically dead following an accident, and executes an enduring power of attorney, so that if you become incapable of managing your affairs as a result of an accident or illness, you can be reassured that responsibility will pass to someone you have chosen and trust.

Of course, all these protection options also apply to your spouse and to those who are in civil partnerships. [n](#)

Long-term care

The Future of Long Term Care report, launched by retirement specialist LV=, shows that as life expectancy in the UK increases, the number of people who will need to make use of formal long-term care services will grow from 840,184 today to 1.1 million by 2025, an increase of 37 per cent.

COST OF LONG-TERM CARE FOR THE ELDERLY

In line with a rise in the number of Britons needing long-term care, LV= predicts the average cost of long-term care per person will rise by £7,000 to £33,000 in real terms per year by 2025 [1], an increase of 27 per cent. This puts the total cost of long-term care for the elderly in the UK at £37.9bn a year by 2025, compared to £21.8bn now [2]. Cost increases would be even higher if the effects of inflation were taken into account.

WHAT TYPE OF LONG-TERM CARE ARE PEOPLE IN?

The Future of Long Term Care report shows that 52 per cent (438,336) of those in formal care in the UK receive it in their home (domiciliary care), while 48 per cent (401,848) are cared for in a residential home. The split between those in residential care and those receiving care at home is expected to remain consistent in the future.

For residential services in nursing and care homes, currently those with assets worth over £23,250 are not eligible for Government support [3]. This report shows that the average wealth, including assets such as investments, savings and property after mortgage, of those over age 55 in the UK is just £32,500, indicating that under the current rules many would have to fund the entire cost of care themselves with no help from the state.

HOW WILL WE FUND LONG-TERM CARE?

While nearly a quarter of UK adults (24 per cent) expect an elderly relative to need long-term care in the future, one in four of these (7 per cent of all adults) plan to look after their loved ones themselves to avoid paying for care. Worryingly, almost half (46 per cent) of those expecting to fund care for others have not thought about how they will pay for it. Those that have say their savings (22 per cent) and salary (19 per cent) will be the main source of funding.

Nearly one in five (17 per cent) UK adults believe they will have to fund the cost of their own long-term care in the future. When asked how they would fund their own care if needed, nearly a quarter (23 per cent) said they would use their property to pay for care, either through equity release, re-mortgaging or selling their home. 18 per cent said they would use savings and 16 per cent would use their pension income.

One in seven (14 per cent) said they would rely on the state to cover their care costs, and a worried 12 per cent do not think they or their family would be able to afford any care and do not know how they will pay for it.

WHY ARE COSTS ON THE RISE?

The biggest reasons behind the rising cost of long-term care in the future are: women working later in life when they traditionally would have provided care; families increasingly living further apart, lessening the option of care within the family; and most significantly, the rapidly increasing elderly population in the UK putting pressure on the infrastructure of care services and driving up costs [5].

The UK is facing an uncertain future on the funding of long-term care. Low interest

rates and rising living costs continue to be a problem, while social care budgets are being cut, creating a worrying financial backdrop for many, especially those in retirement. It is a real concern for people who have the burden of long-term care costs approaching, as currently they could be faced with an open-ended bill that makes it difficult to plan effectively to meet these costs.

GOVERNMENT FUNDING

The report from Andrew Dilnot, reviewing the funding system for long-term care in England, suggests that a cap on the amount people pay towards the cost of their care be set at around £35,000, and recommends that only those with assets worth over £100,000 should pay for the full cost of their care. The report from LV= reveals that 88 per cent of Britons agree there should be a cap introduced on the funding of long-term care, and 22 per cent of this group think it should be dependent on people's wealth and not set at the same level for everyone. On average, people thought the cap should be set at £14,000, much lower than the cap recommended in the Dilnot report.

The average wealth of those over age 55 is above the current limit for state funding of £23,250, meaning the cost of long-term care will need to be paid for out of their own pockets under the current rules. With the average cost per person of long-term care set to hit £33,000 per year by 2025, it won't be long before personal funds run dry. [n](#)

The LV= Future of Long Term Care report was produced by the Desk research team at Opinium Research using 2011 predictions of volume and cost for long-term care by the Personal Social Services Research Unit (PSSRU), with additional material from

the London School of Economics and the Organisation for Economic Cooperation and Development (OECD) as well as survey findings from Opinium's online omnibus from 16-18 April 2012 on behalf of LV= (total sample size was 2,015 UK adults aged over 18).

[1] The average cost for long-term care is currently estimated at £26,000 per year; however, the Future of Long Term Care report predicted this will increase by 2.3 per cent by the year 2015. Thereafter with a projection of a cost increase of more than 10 per cent per year, the price of a year's long-term care per person could rise to more than £33,000 by the year 2025. This does not include the effects of inflation that would increase this figure further.

[2] $1,149,112$ (expected to be in long-term care in the UK by 2025) \times £33,000 (expected cost per year by 2025) = £37,920,696,000 (or vs 2012: $840,184 \times$ £26,000 = £21,844,780,704).

[3] Excluding Scotland.

[4] 2010 Laing & Buisson.

[5] The rising costs predicted in this report do not include the effects of inflation which would increase the predicted figures for the cost of future care further. Instead all projections are based on 2010 constant prices as calculated by the PSSRU.

Inheritance tax

Effective inheritance tax planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, inheritance tax (IHT) is the tax payable on your estate when you die if the value of your estate exceeds a certain amount.

IHT is currently paid on amounts above £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2012/13 tax year, at a rate of 40 per cent. 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.

SUBSTANTIAL TAX LIABILITY

Without proper tax planning, many people could end up leaving a substantial tax liability on their death, considerably reducing the value of the estate passing to their chosen beneficiaries.

Your estate includes everything owned in your name, the share of anything owned jointly, gifts from which you keep back some benefit (such as a home given to a son or daughter but in which you still live) and assets held in some trusts from which you receive an income.

Against this total value is set everything that you owed, such as any outstanding mortgages or loans, unpaid bills and costs incurred during your lifetime for which bills have not been received, as well as funeral expenses.

PLANNING REDUCE YOUR FAMILY'S IHT BILL

There are a number of options that could, if appropriate, potentially reduce your family's IHT bill.

Make a will – an effective will could help reduce an IHT bill.

Look into exemptions – there are a number of exemptions you can use to reduce the value of your estate. For example, moving assets between spouses or registered civil partners does not create an IHT liability.

Consider gifts – if you can afford to give away some of the assets you own, it may be possible to reduce the size of your estate.

Think about life assurance – a life assurance plan written in an appropriate trust won't actually lessen the inheritance tax bill but the proceeds could be used to help pay the bill on death.

Consider trusts – if structured carefully, trusts can help to reduce or even eliminate an IHT liability.

USEFUL FOR TAX PLANNING

Any amount of money given away outright to an individual is not counted for tax if the person making the gift survives for seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning.

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.

NOT SUBJECT TO TAX

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 tax but amounts over this are taxed at 20 per cent with a further

20 per cent payable if the person making the gift dies within seven years.

Some cash gifts are exempt from tax regardless of the seven-year rule. Regular gifts from after-tax income, such as a monthly payment to a family member, are also exempt as long as you still have sufficient income to maintain your standard of living.

COMBINED TAX THRESHOLD

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. Tax will be due eventually when the surviving spouse or registered civil partner dies if the value of their estate is more than the combined tax threshold, currently £650,000.

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.

HOW MUCH TAX SHOULD BE PAID?

In most cases, IHT must be paid within six months from the end of the month in which the death occurs. If not, interest is charged on the unpaid amount. Tax on some assets, including land and buildings, can be deferred and paid in instalments over ten years. However, if the asset is sold before all the instalments have been paid, the outstanding amount must be paid. The IHT threshold in force at the time of death is used to calculate how much tax should be paid. [n](#)

Protection strategy

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. [n](#)

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. Without obtaining professional advice these can vary tremendously between providers, making it difficult to assess your precise needs. 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.

UK Trusts, passing assets to beneficiaries

You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away, this removes it from your estate provided you don't use it or get any benefit from it. But bear in mind that gifts into trust may be liable to inheritance tax (IHT).

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

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

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

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

WHAT IS A TRUST?

A trust is an obligation binding a person called a trustee to deal with property in

a particular way for the benefit of one or more 'beneficiaries'.

SETTLOR

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

TRUSTEE

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

BENEFICIARY

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

TRUST PROPERTY

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

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

THE MAIN TYPES OF PRIVATE UK TRUST

BARE TRUST

In a bare trust the property is held in the trustee's name but the beneficiary can take actual possession of both the income

and trust property whenever they want. The beneficiaries are named and cannot be changed.

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

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

LIFE INTEREST OR INTEREST IN POSSESSION TRUST

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

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

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

With a life interest trust, the trustees often have a 'power of appointment',

which means they can appoint capital to the beneficiaries (who can be from within a widely defined class, such as the settlor's extended family) when they see fit.

Where an interest in possession trust was in existence before March 22, 2006, the underlying capital is treated as belonging to the beneficiary or beneficiaries for IHT purposes, for example, it has to be included as part of their estate.

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

- n 20 per cent tax payable based on the amount gifted into the trust at the outset, which is in excess of the prevailing nil rate band
- n Ten years after the trust was created, and on each subsequent ten-year anniversary, a periodic charge, currently 6 per cent, is applied to the portion of the trust assets that is in excess of the prevailing nil rate band
- n The value of the available 'nil rate band' on each ten-year anniversary may be reduced, for instance, by the initial amount of any new gifts put into the trust within seven years of its creation
- n There is also an exit charge on any distribution of trust assets between each ten-year anniversary

DISCRETIONARY TRUST

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

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

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

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

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

ACCUMULATION AND MAINTENANCE TRUST

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

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

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

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

MIXED TRUST

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

TRUSTS FOR VULNERABLE PERSONS

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

TAX ON INCOME FROM UK TRUSTS

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

TAXATION OF PROPERTY SETTLED ON TRUSTS

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



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