

# Plan Money

MAY/JUNE 2011

## Is it time to spring-clean your portfolio?

Picking the right combination of assets will depend on your risk profile

### Estate planning

Tax saving incentives for substantial charitable legacies

### Absolute return funds

Steadier results through a combination of strategies

## Take a more flexible approach to retirement

How the new rule changes could affect your future planning

## How focused is your portfolio?

Investing for growth, income or both

**NEW PENSION  
RULE CHANGES**  
Turn to page 12

Plan Money Ltd Bentley House, Gt Bentley, Colchester CO7 8GD

Telephone: 01206 257501 Email: [info@plan-money.co.uk](mailto:info@plan-money.co.uk) Web: [www.plan-money.co.uk](http://www.plan-money.co.uk)

*Nothing contained within this guide should be considered as giving individual financial advice.*

*Plan Money Ltd is an appointed representative of TenetConnect Services Ltd which is authorised and regulated by the Financial Services Authority. TenetConnect Services is entered on the FSA register under reference 150643*

# Welcome

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

As life expectancy rates in the UK continue to rise, the coalition Government estimates that nearly one in five people will live to see their 100th birthday. Radical legislation will be required in an attempt to ensure pension savings are sufficient for these retirees, which in turn will help reduce the burden on the state. As people are also increasingly taking a more flexible approach to retirement, often winding down rather than retiring on a specific fixed date, on page 12 we explain the new rules and consider whether you are likely to be affected.

All investments carry a degree of risk but some are more risky than others. Once you have established a solid foundation of savings for the short term, you may look to investments to provide more growth potential over a longer period, typically five years or more. On page 06, we discuss why no one investment strategy will suit everyone and look at how to divide up your investment portfolio into different types of investments that change over time.

Do you want to grow your capital, increase your income or both? Your answer will determine the type of investments you select and, in addition, you need to be aware of the concept of 'total return'. This is the measurement of performance - the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realised over a given period of time. Read the full article on page 05.

A full list of all the articles featured in this edition appears on page 03.

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

# Absolute return funds

## Steadier results through a combination of strategies

*In the current investment climate, absolute return funds could offer the ordinary investor access to a range of more sophisticated investment techniques previously only available to the very wealthy.*

These products, which have only become generally available in more recent years, aim to provide a positive return annually regardless of what is happening in the stock market. However, this is not to say they can't fall in value. Fund managers stress that investors should not expect the funds to make money for them month in, month out, but over the medium term - five years - they should produce positive returns.

### INVEST IN A WIDE RANGE OF ASSETS

Absolute return funds achieve their steadier results through a combination of strategies. One strategy is to invest in a wide range of assets, including not only shares, bonds and cash but also the likes of property and hedge funds. Another is to use derivatives, which are specialised products that allow investors to bet on the future price movement of an asset. Crucially, this allows investors to make money when an asset is falling, as well as rising, in price. To make money in a falling market, absolute return managers can make use of sophisticated investment tools such as 'shorting' and 'credit default swaps'.

Used properly, these tools aim to allow absolute return funds to do better than straightforward equity or bond funds when markets are falling. However, they are likely to lag behind their more conventional rivals when markets are rising.

### PRESERVE WEALTH, IN GOOD TIMES AND IN BAD

Absolute return funds have a broad appeal and a place in many investors' portfolios because they aim to do what a lot of investors want, which is to make money and preserve wealth, in good times and in bad.

For the more adventurous investor, absolute return funds could be used as the foundation of a portfolio while buying more aggressive funds alongside. Alternatively, for

more cautious investors they could provide a foundation for a more conventional portfolio. However, it is vital that investors choose carefully and obtain professional advice before entering this market.

### BUILDING A BALANCED PORTFOLIO

Absolute return funds do not rely heavily on a rising market for their success, rather the skill of the manager. They are therefore a true diversifier and could also be an important tool for building a balanced portfolio that grows over the medium to long term.

Unlike hedge funds, absolute return funds are fully regulated by the Financial Services Authority and investments in them are covered by the Financial Services Compensation Scheme, providing they are based in the UK.

Investors in absolute return funds are principally liable to Capital Gains Tax (CGT), which is charged when you sell an investment and realise 'gains' (profits) above a certain level. Current CGT rates are 18 per cent or 28 per cent for basic and higher rate tax payers respectively. In addition, every investor can also realise £10,600 of profits in the current 2011/12 tax year without having to pay CGT. ■





# In this issue

- 02 ABSOLUTE RETURN FUNDS**  
Steadier results through a combination of strategies

---

- 04 PENSION REFORMS**  
Radical changes announced to the public sector

---

- 04 ESTATE PLANNING**  
Tax saving incentives for substantial charitable legacies

---

- 05 HOW FOCUSED IS YOUR PORTFOLIO?**  
Investing for growth, income or both

---

- 05 GENDER-BASED INSURANCE RATES**  
EU rules against sex discrimination

---

- 06 IS IT TIME TO SPRING-CLEAN YOUR PORTFOLIO?**  
Picking the right combination of assets will depend on your risk profile

- 08 TAXING TIMES**  
How the taxman treats investments

---

- 10 GET YOUR PENSION PLANNING BACK ON TRACK**  
Are you financially prepared for retirement?

---

- 12 TAKE A MORE FLEXIBLE APPROACH TO RETIREMENT**  
How the new rule changes could affect your future planning

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

## WANT TO MAKE MORE OF YOUR MONEY?

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

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li><input type="checkbox"/> Arranging a financial wealth check</li> <li><input type="checkbox"/> Building an investment portfolio</li> <li><input type="checkbox"/> Generating a bigger retirement income</li> <li><input type="checkbox"/> Off-shore investments</li> <li><input type="checkbox"/> Tax-efficient investments</li> <li><input type="checkbox"/> Family protection in the event of premature death</li> <li><input type="checkbox"/> Protection against the loss of regular income</li> <li><input type="checkbox"/> Providing a capital sum if I'm diagnosed with serious illness</li> <li><input type="checkbox"/> Provision for long-term health care</li> <li><input type="checkbox"/> School fees/further education funding</li> <li><input type="checkbox"/> Protecting my estate from inheritance tax</li> <li><input type="checkbox"/> Capital gains tax planning</li> <li><input type="checkbox"/> Corporation tax/income tax planning</li> </ul> | <ul style="list-style-type: none"> <li><input type="checkbox"/> Director and employee benefit schemes</li> <li><input type="checkbox"/> Other (please specify)</li> </ul> <p>Name .....</p> <p>Address .....</p> <p>.....</p> <p>..... Postcode .....</p> <p>Tel. (home) .....</p> <p>Tel. (work) .....</p> <p>Mobile .....</p> <p>Email .....</p> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



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



## PENSION REFORMS

### Radical changes announced to the public sector

Labour peer Lord Hutton has recommended to ministers that public sector workers should no longer have final salary pensions. Instead they should have schemes linked to average earnings, while paying more and working longer.

From 2015, most of the six million state employees will be expected to retire at the state pension age, which is due to rise to 66 by 2020. Armed Forces personnel, firemen and police officers, who can currently retire in their 50s or even younger, would have to wait until they reach 60 to receive a pension.

Lord Hutton was asked to draw up plans for the future of public sector pensions, which have become increasingly unaffordable as life expectancy rises. This would mean the end of final salary schemes, which have largely disappeared in the private sector. However, rather than replacing them with the defined benefit schemes common in the wider pensions industry, he has recommended that the relatively liberal career average earnings system be adopted.

Lord Hutton says that, while the special status of these workers should be respected, it is no longer acceptable for pensions to be paid in early middle age. In future, the uniformed services should not be able to retire before their 60th birthday. He also says that it should be possible to introduce the new pension ages by the end of the current Parliament, in 2015.



# Estate planning

## Tax saving incentives for substantial charitable legacies

*If you have an estate currently worth more than £325,000, you should plan early and act decisively if you are to avoid burdening your heirs with a future Inheritance Tax (IHT) liability.*

During Budget 2011 measures were announced to encourage charitable giving that will be of interest to both the voluntary sector and those who donate to charity. The reduction from 40 per cent to 36 per cent in the rate of IHT will become applicable from 6 April 2012 where 10 per cent or more of a deceased's net estate is left to charity.

The current £325,000 nil rate IHT band is frozen until April 2015 and will be indexed against the Consumer Prices Index measure of inflation.

The move to boost philanthropy, known as '10 for 10', will cost the Treasury about £170m a year by 2015/16 but it is estimated the measure could result in more than £350m worth of additional legacies in the first four years of the scheme.

The Chancellor, Mr Osborne told the Commons: 'If you leave 10 per cent or more of your estate to charity, then the Government will take 10 per cent off your

IHT rate. Let's be clear: no beneficiaries will be better off, just the charities to the tune of £300m. I want to make giving 10 per cent of your legacy to charity the new norm in our country.'

People with estates larger than £325,000 should arrange their affairs carefully to avoid paying more IHT than they need to. It's never too early to think about this subject. There is a plethora of things people can do to reduce a liability and ensure they leave the maximum amount to their family and not the taxman. ■

THIS IS A VERY COMPLICATED AREA OF FINANCIAL PLANNING AND OBTAINING PROFESSIONAL ADVICE IS ESSENTIAL TO PRESERVE YOUR WEALTH FOR FUTURE GENERATIONS. FOR INFORMATION ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

# How focused is your portfolio?

## Investing for growth, income or both

Do you want to grow your capital, increase your income or both? Your answer will determine the type of investments you select and, in addition, you need to be aware of the concept of 'total return'. This is the measurement of performance - the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realised over a given period of time.

### INCOME AND CAPITAL APPRECIATION

Total return accounts for two categories of return: income and capital appreciation. Income includes interest paid by fixed-income investments, distributions or dividends. Capital appreciation represents the change in the market price of an asset. Total return looks to combine income with capital growth to achieve the best overall return.

Whether you choose an income or a growth fund will typically depend on your circumstances and objectives - in other words, your investment time frame, your attitude towards investment risk and what you need the investment to provide for you.

### A REGULAR STREAM OF INCOME

If you need a regular stream of income, focusing your portfolio on assets that will help you achieve this, such as cash and bonds, will provide a fixed income. If you have a longer investment time period or you do not need an immediate income, you could consider a larger allocation to growth-focused investments.

It is possible to buy an income fund and a growth fund to capitalise on the advantages that come with each type of investment strategy. Some investment houses manage both income and growth funds, which provide a little of each style in the same fund; however, there is usually less choice available.

Whatever your preference, if you hold a variety of investments, both growth and income, you should be better prepared for

future economic ups and downs. As your financial situation changes over time, you may need to make the necessary adjustments to your investment portfolio and switch from growth assets to income.

### INVESTMENT TIMELINE

Broadly speaking, younger people are saving for the long term and don't necessarily need their investments to produce a current income but will be looking to guard against inflation. Under these circumstances growth funds may be more appropriate.

For middle-aged investors, growth funds are still generally the right option, but the amount invested is likely to be larger as a result of higher income and savings accumulated over previous years. With a secure capital base behind them, middle-aged investors may also consider putting part of their savings into some higher risk investments, such as more specialised pooled funds.

When investors start to approach retirement, their priorities change. Having built up a capital sum, they usually need to start switching towards funds that provide an income once they stop work. Although share-based investment funds tend to do well over the long term, they can swing sharply in value over the short term. So people of retirement age should perhaps consider switching into more defensive, income funds at this point. ■

WE UNDERSTAND THAT CHOOSING INVESTMENTS CAN BE DIFFICULT, SO WHETHER YOU'RE A FIRST-TIME INVESTOR OR AN EXPERIENCED ONE, WE CAN HELP YOU TO EXPLORE YOUR OPTIONS AND TAILOR YOUR PORTFOLIO. THIS COULD BE AS SIMPLE AS ENSURING YOU GET THE BEST RATES FOR SHORT-TERM CASH MANAGEMENT, OR A MORE COMPLEX UNDERTAKING TO CREATE AN INVESTMENT PORTFOLIO TO GROW YOUR WEALTH FOR THE LONG TERM. PLEASE CONTACT US FOR MORE INFORMATION.

## GENDER-BASED INSURANCE RATES

### EU rules against sex discrimination

The European Court of Justice has ruled that gender-based insurance rates are unlawful in a move that could lead to a shake-up in the annuity market. This major ruling takes effect from 21 December 2012 and will fundamentally reshape the retirement landscape, leading to the likely equalisation of annuity rates for men and women. This ruling means it will be imperative that every investor shops around with their pension fund at retirement; if they don't they risk ending up with a homogenised standard-issue annuity which is almost certain to be a poor deal for them.

Following this announcement, it would be natural to assume that rates may drift towards the middle of where male and female rates currently stand. However, to begin with, insurers might be very conservative about the annuity rates they offer and we could see rates for men cut to where female rates are without much, if any, rise in rates for women.

The ruling may also encourage insurers to build more personalised pricing systems, leading to annuity income becoming more related to you and your individual lifestyle. To some extent this process is already under way with the expansion of enhanced annuities offering a higher income if you have health problems or are a smoker.

# Is it time to spring-clean your portfolio?



Picking the right combination of assets will depend on your risk profile

*All investments, including cash deposits, carry a degree of risk but some are more risky than others. Once you have established a solid foundation of savings for the short term, you may look to investments to provide more growth potential over a longer period, typically five years or more. There is no one investment strategy that suits everyone and your decisions on how to divide up your investment portfolio into different types of investment will change over time.*

If appropriate to your particular situation, the start of the new 2011/12 tax year is a good time to reconsider your attitude towards risk for return and give some thought to whether the structure of your portfolio is still in line with your investment aims and objectives or whether your investment attitude has changed. Also, in the current economic climate, with interest rates so low and the prospects of future rising inflation, you could be losing out by keeping your money in a savings account because inflation is beating the return on interest rates and, therefore, the real spending power of your money is less.

## THE IMPORTANCE OF DIVERSIFICATION

You should consider the weighting and balance of the constituents of

your portfolio. Above all, there is the importance of diversification, both geographically and between sectors, even between asset classes and the weightings you wish to keep in each part of your portfolio. Not having all your eggs in one basket means that if one part of your portfolio underperforms, this could be compensated for elsewhere.

When you choose to invest, your money can be spread across five main types of asset:

- Cash
- Gilts (Government bonds)
- Corporate bonds
- Equities (stocks and shares)
- Property

You should remember that different types of investments may receive different

tax treatment, which could affect your choice. These asset classes have different risk characteristics and whilst these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

Saving your money in a range of assets helps reduce your exposure should one of your investments suffer a downturn. For many investors the creation of a 'balanced' portfolio means spreading investments across a range of products to minimise risk exposure.

Given some forward planning, you could decide on the amount of risk with which you're most comfortable. By spreading your investments over a wide range of asset classes and different sectors, it is possible to mitigate the risk that your portfolio becomes overly reliant on the performance of



“ Saving your money in a range of assets helps reduce your exposure should one of your investments suffer a downturn. For many investors the creation of a ‘balanced’ portfolio means spreading investments across a range of products to minimise risk exposure. ”

one particular asset. Key to diversification is selecting assets that behave in different ways.

### A ‘SAFETY NET’ BY DIVERSIFYING

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

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

## DID YOU KNOW?

Since April 1962 to February 2010, shares have beaten cash:

- in 92.3 per cent of all 10-year periods
- in 100 per cent of all 15-year periods
- in 100 per cent of all 20-year periods

Source: *The Office for National Statistics and M&G data, February 2010*

The important thing to remember about investments is that, even if your investment goes down, you will only actually make a loss if you cash it in at that time. You should be prepared to take some risk and you may see some falls in the value of your investments.

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

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important goal. ■

## SPRING-CLEANING YOUR PORTFOLIO

When reassessing your financial plans, it’s important to consider the five steps below before you do anything with your money.

- 1) What are your financial goals?
- 2) What’s your time frame?
- 3) What is your attitude to risk?
- 4) How much can you afford to invest?
- 5) Have you obtained professional financial advice?

TO DISCUSS HOW WE COULD HELP YOU REASSESS YOUR ATTITUDE TOWARDS RISK, GET AN OVERVIEW OF SOME OF THE ALTERNATIVE TYPES OF INVESTMENTS THAT ARE AVAILABLE AND HELP YOU MAKE INFORMED DECISIONS ABOUT HOW, WHEN AND WHERE TO INVEST FOR THE FUTURE, PLEASE CONTACT US.

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

# Taxing times

## How the taxman treats investments

*Different investments are subject to different tax treatment. The following is based on our understanding, as at 6 April 2011, of current taxation, legislation and HM Revenue & Customs (HMRC) practice, all of which are subject to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances.*

### UNNECESSARY TAX ON SAVINGS

If you or your partner is a non-taxpayer, make sure you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HMRC.

### INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

You pay no personal Income Tax or Capital Gains Tax (CGT) on any growth in an ISA, or when you withdraw your money. You can save up to £10,680 per person in an ISA in the 2011/12 tax year. If you invest in a Stocks and Shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. The tax credit cannot be reclaimed by anyone including non taxpayers. There is no further tax liability. The impact of taxation (and any tax reliefs) depends on your individual circumstances.

### NATIONAL SAVINGS & INVESTMENTS (NS&I)

You can shelter money in a tax-efficient way within this Government-backed savings institution. During Budget 2011 it was announced that NS&I is to relaunch index-linked savings certificates. Returns will be tax-free and the maximum that can be saved is £15,000 per individual per investment.

### UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES (OEICS)

With a Unit Trust or OEIC your money is pooled with other investors' money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property.

**Dividend income from OEICS and unit trusts invested in shares:** if your fund is invested in shares, then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit.

If you are a basic rate or non taxpayer, there is no further income tax liability.

Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

**Interest from fixed interest funds:** any interest paid out from fixed interest funds (these are funds that invest, for example, in corporate bonds and gilts, or cash) is treated differently to income from funds invested in shares. Income is paid net of 20 per cent tax. Non taxpayers can re-claim this amount, basic rate taxpayers have no further liability; higher rate taxpayers pay an additional 20 per cent, additional rate taxpayers pay 30 per cent (whether distributed or re-invested).

**Capital Gains Tax (CGT):** no CGT is paid on the growth in your money from the investments held within the fund, but when you sell, you may have to pay CGT. You have a personal CGT allowance that can help limit any potential tax liability.

**Accumulated income:** this is interest or dividend payments that are not taken but instead reinvested into your fund. Even though they are reinvested, they still count as income and are subject to the same tax rules as for dividend income and interest.

### ONSHORE INVESTMENT BONDS

Investment bonds have a different tax treatment from many other investments. This can lead to some valuable tax planning opportunities for individuals. There is no personal liability to CGT or basic rate Income Tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative, so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be greater than 100 per cent of the amount paid in).



“ If you or your partner is a non-taxpayer, make sure you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HM Revenue & Customs. ”

If you are a higher or additional rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire, for example), then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. Whether you pay tax will depend on factors such as how much gain is realised over the 5 per cent allowance (or on full encashment) and how much other income you have in the year of encashment (the gain plus other income could take you into the higher rate tax bracket). Those with age-related allowances could lose some or all of this allowance if the gain on a bond added to other income takes them over £24,000 in the 2011/12 tax year, which equates to a marginal rate of tax on ‘the age allowance trap’ element of their income chargeable at 30 per cent.

If you do defer withdrawal, you will not usually need to pay tax on any gains. However, this will depend on your individual circumstances at that time and, as such, you should seek professional financial and tax advice regarding this complex area.

The taxation of life assurance investment bonds held by UK corporate investors

changed from 1 April 2008. The bonds fall under different legislation and corporate investors are no longer able to withdraw 5 per cent of their investment each year and defer the tax on this until the bond ends.

#### OFFSHORE INVESTMENT BONDS

Offshore investment bonds are similar to onshore investment bonds (above) but there is one main difference. With an onshore bond, tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or CGT is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Tax may, however, become payable on a chargeable event (usually on encashment or partial encashment) at a basic, higher or additional rate tax as appropriate. Remember that the value of your fund can fluctuate and you may not get back your original investment.

#### UK SHARES

If you own shares directly in a company you may be liable to tax.

Any income (dividends) you receive from your shares carries a 10 per cent tax credit. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while 50 per cent additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

When you sell shares, you may be liable to CGT on any gains you might make. Current CGT rates are 18 per cent or 28 per cent for basic and higher rate tax payers respectively. You have an annual allowance and special rules apply to calculating your gains or losses. ■

WE ARE COMMITTED TO MEETING THE NEEDS OF OUR CLIENTS AND HELPING THEM BUILD WEALTH IN THE MOST TAX-EFFICIENT WAY. THERE ARE MANY DIFFERENT WAYS TO GROW YOUR WEALTH. OUR SKILL IS IN HELPING YOU TO UNDERSTAND THE CHOICES AND THEN HELPING YOU MAKE THE INVESTMENT DECISIONS THAT ARE RIGHT FOR YOU. FOR MORE INFORMATION, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

# Get your pension planning back on track



## Are you financially prepared for retirement?

If you are a 50-something, are you financially prepared for retirement? It is estimated that one third of people in this age group have no retirement savings at all. However, the plans you make in the final approach to retirement can have the most significant impact on the size of your eventual pension.

For those in their 50s, pension planning has always been particularly important, but today's 50-somethings face a series of challenges that no other generation has had to deal with. This age group has benefited from huge improvements in health and longevity; men retiring at 65 can now expect to live into their early 80s, while women of the same age can expect to celebrate their 85th birthday.

Many people currently in their 50s have also seen their pensions and savings squeezed from all sides, with company pension schemes being cut back while the value of the state pension has fallen. Ignoring the problem completely is likely to make it significantly worse.

Planning for retirement is one of the biggest financial challenges people face, and the one you can least afford to get wrong. If you are in your 50s and find yourself in this position, there are steps you can take to improve your pension prospects.

### **WE CAN HELP YOU GET YOUR PENSION PLANNING BACK ON TRACK**

#### **COUNTDOWN TO RETIREMENT – 10 YEARS REMAINING**

Before you can draw up financial plans for the future, you need a clear view of your current position. Do you know what you are worth? As a starting point, people should establish what their likely state pension entitlement would be. This can be done by completing a form BR19, available at [www.direct.gov.uk](http://www.direct.gov.uk). You should also contact the pension trustees of your

current and previous employers, who will be able to provide pension forecasts, as will the companies managing any private pension plans.

You then need to consider how much income you'll need in retirement. It's important to be realistic – you may spend less if you are not commuting to work, for example – but don't forget to factor in holidays, travel and any debts you may still have.

If you are currently on target to receiving less than you'd ideally like, it is essential that you obtain professional advice about how you can make up any shortfall. With ten years or less to retirement, you need to maximise your savings during this period and not only into pensions but utilising other appropriate investments. You will need to consider whether options such as retiring later or working part-time beyond your retirement date may be a more realistic way of meeting your retirement goals.

It is not only how much you save but where it is invested that can make a difference. We can assist you to carry out an audit of existing pension plans and help you look at where they are invested, how they have performed and what charges are levied on them. It may even be appropriate to consolidate existing pension plans or take steps to protect capital values – there are a number of guaranteed products that could help you achieve this.

As part of this review we can also look at the diversification of your assets, as this can help protect against sudden market movements. With a ten-year time frame, investors need to weigh up the risks of equity investments against safer cash-based products.

Generally, the nearer you are to drawing your pension, the less investment risk you should take. But over this period it is reasonable to include equities within a mixed portfolio, particularly given the very low returns currently available on



“ It is estimated that one third of people in their 50s have no retirement savings at all. ”

cash. Bonds, gilts and some structured products may also provide a halfway house between cash and equities.

### COUNTDOWN TO RETIREMENT - 5 YEARS REMAINING

During this period we can help you review your retirement goals. It's also important to obtain up-to-date pension forecasts. Is retiring at the age you planned still realistic and achievable?

As you approach the final five years, you'll need to consider moving any stock market-based investments into safer options such as cash, bonds or gilts. If there is a sudden market correction now, you may have insufficient time to make good any losses.

If you have any lost pensions and need help contacting the provider, the Pension Tracing Service (0845) 600 2537 may be able to help. The tracing service will use this database, to search for your scheme and may be able to provide you with current contact details. The information can be used to contact the pension provider and find out if you have any pension entitlement.

Potentially you now have just 60 paydays remaining until you retire. So it's essential that you save what you can during this period, taking advantage of pensions and tax-efficient investments. Remember, this money will have to produce enough income for you to live off for potentially more than 20 years.

If you have maximised your pension contributions, it is also possible to contribute into a partner's pension plan. So don't forget to consider a spouse's pension. If you are a higher earner in a final salary scheme, you should ensure that any additional pension savings don't breach the 'lifetime allowance' as this could generate a tax bill. The lifetime allowance will be reduced from £1.8m to £1.5m from April 2012. Also, if you still have outstanding debts, such as a mortgage or credit cards, you should use any surplus money to reduce them.

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make. It's important not to leave it until the last minute to decide what you will do with your pension fund. You need to obtain professional advice and consider your options properly; simply buying the annuity offered by your pension provider could significantly reduce your income in retirement and there is no second chance to make a better decision.

You also have other retirement alternatives available and the freedom to choose when and how you take your pension, with the previous compulsory annuity age of 75 withdrawn. Under the new annuity purchase rules, you are given more flexibility about how you choose to use your retirement savings. You can still convert funds to an annuity if you wish, but you also have more

options such as a drawdown pension and continued pension investment.

### COUNTDOWN TO RETIREMENT - 6 MONTHS REMAINING

You will need to contact your pension providers to find out how your pension will eventually be paid and to ascertain the value. If you decide to defer your retirement you will have to inform your pension providers.

If you decide to purchase an annuity you should seek professional advice to ensure that you get the best rate. If you smoke or have certain health problems, even minor ones, inform the annuity provider as you may obtain a better rate.

By deferring taking your state pension, you could qualify for a bigger pension. If you opt to do this you'll need to contact the Pensions Service. If you work beyond your retirement age you do not have to make National Insurance contributions. Any additional money earned could be saved in a pension plan. ■

CHOOSING HOW TO TAKE YOUR PENSION BENEFITS IS ONE OF THE MOST IMPORTANT DECISIONS YOU'LL MAKE, SO IT'S VITAL YOU HAVE ALL THE FACTS. TO FIND OUT MORE ABOUT HOW WE CAN HELP YOU, PLEASE CONTACT US.

# Take a more flexible approach to retirement

## How the new rule changes could affect your future planning

*As life expectancy rates in the UK continue to rise, the coalition Government estimates that nearly one in five people will live to see their 100th birthday. Radical legislation will attempt to ensure pension savings are sufficient for these retirees, which in turn will help reduce the burden on the state.*

People are also increasingly taking a more flexible approach to retirement, often winding down rather than retiring on a specific fixed date. The new rules allow for that flexibility, enabling you to secure income from part of your pension while keeping the rest invested, for instance. If you are under 75 you are likely to be affected. Even people with some years to go until retirement have something to think about.

While the new rules make these retirement options possible, not all pension providers will necessarily offer all the options. Very few providers already have a drawdown option for traditional personal pension plans. Fewer still are expected to offer flexible drawdown. So these rule changes mean that now is an appropriate time to discuss your pension arrangements with us. On the right, we have provided a summary of the retirement rule changes.

### NEW RETIREMENT RULE CHANGES FROM 6 APRIL 2011

- The maximum pension contribution limit is reduced to £50,000 from £255,000 annually. The balance of a notional £50,000 annual allowance from the previous three tax years can be carried forward, allowing for potential catch up in 2011/12.
- The previous types of income-drawing arrangement have been abolished and replaced by the simple term 'drawdown pension', of which there are two types – capped and flexible.
- To qualify for flexible drawdown, you must have a secure income stream already in payment of £20,000 per year or more.
- Under capped drawdown, the maximum annual income is based on a Government Actuary Department (GAD) calculation of 100 per cent of the relevant annuity, instead of the previous 120 per cent.
- Your GAD maximum will be reviewed every three years up to age 75 and annually thereafter.
- Drawdown is available from age 55 (or earlier for those with a protected pension age) with no upper age restriction.
- If you die after starting to draw an income from your pension, any remaining pension fund will be taxed at 55 per cent, regardless of your age.
- Until age 75, there will be no tax charge on death for undrawn funds and a lump sum can be paid to your beneficiaries. After age 75, undrawn funds will be taxed at 55 per cent on death, but ring-fenced from the rest of your estate.
- Defined benefits will be valued using a flat factor of 16.
- The Lifetime Allowance will be reduced from £1.8m to £1.5m from April 2012.
- Tax charges are applicable on funds in excess of the Lifetime Allowance.

WITH THE INTRODUCTION OF THE NEW PENSION RULES, THERE'S NO BETTER TIME TO REVIEW YOUR EXISTING ARRANGEMENTS. THIS IS A COMPLEX SUBJECT AND RECEIVING PROFESSIONAL ADVICE ABOUT THESE CHANGES AND HOW TO COPE WITH THE NEW MINIMUM INCOME REQUIREMENT IS ESSENTIAL TO ENSURE YOU MAXIMISE YOUR RETIREMENT INCOME. TO DISCUSS YOUR PARTICULAR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.