

smartmoney



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# Investing in a new decade

What opportunities could the future hold?

# Boosting your pension

Act fast before the end of the tax year

# Is it time you had a wealth check?

Start the new decade with a new bill of wealth



# Pre-Budget Report

The key points at a glance

# Individual Savings Accounts

A popular and simple way to save

# Critical illness cover

Protection for the unexpected

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# Inside this issue

Welcome. The start of a New Year and new decade are typically times when many of us look at our personal finances and ask ourselves how we can start building wealth by creating an effective portfolio to achieve financial independence, or alternatively, how we can improve our existing portfolio to help ensure we achieve our future plans and goals successfully. Whether you are a new or experienced investor, on page 4 we consider what areas could be seen as opportunities for investors this decade.

If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, we can provide you with the professional advice you need to enable you to weigh up your options. In addition, we can help you determine what levels of income you may need and work with you to review this as your requirements change. Read the full article on page 12.

The end of the 2009/10 tax year is rapidly approaching and now is the perfect time to consider your Individual Savings Account (ISA) options. On page 5 we look at these tax-efficient wrappers and explain why they are a popular and simple way to save.

Also inside this issue, find out at a glance the key points from Chancellor Alistair Darling's third Pre-Budget Report. In addition, we provide information about boosting your pension before the end of the tax year and ask whether it's time you had a wealth check. A full list of the articles featured appears on page 3.

**To discuss your financial planning requirements or to obtain further information, please contact us.**

## RETIREMENT

# Retirement planning

## Transferring pensions

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

You might well have several different types of pension. The gold standard is the final-salary scheme, which pays a pension based on your salary when you leave your job and on years of service. Your past employer might try to encourage you to move your pension away by boosting your fund with an 'enhanced' transfer value and even a cash lump sum.

However, this still may not compensate for the benefits you are giving up, and you may need an exceptionally high rate of investment return on the funds you are given to match what you would get if you stayed in the final-salary scheme.

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

If appropriate to your particular situation, it may make sense to bring these pensions under one roof to benefit from lower charges, make fund monitoring easier and aim to improve fund performance. Transferring your pension will not guarantee greater benefits in retirement.

*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.*

**Effective retirement planning requires an expert knowledge of the detail of pension legislation and an ability clearly to understand your individual long-term objectives and expectations. We offer both. For more information about the services we offer, please contact us.**

## want to make more of your money?

**For more information please tick the appropriate box or boxes below, include your personal details and return this information directly to us.**

- Arranging a financial wealth check
- Building an investment portfolio
- Generating a bigger retirement income
- Off-shore investments
- Tax-efficient investments
- Family protection in the event of premature death
- Protection against the loss of regular income
- Providing a capital sum if I'm diagnosed with serious illness
- Provision for long-term health care
- School fees/further education funding
- Protecting my estate from inheritance tax
- Capital gains tax planning

- Corporation tax/income tax planning
- Director and employee benefit schemes
- Other (please specify)

Name \_\_\_\_\_

Address \_\_\_\_\_  
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\_\_\_\_\_

Postcode \_\_\_\_\_

Tel. (home) \_\_\_\_\_

Tel. (work) \_\_\_\_\_

Mobile \_\_\_\_\_

Email \_\_\_\_\_



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

# Making a will

## Don't leave your loved ones with additional costs and complications

People who die without a valid will, or intestate, leave costs and complications to their loved ones and often gift thousands of pounds to the State in what may be avoidable Inheritance Tax (IHT).

The Law Society says that anyone with assets and family or friends should make a will, regardless of their age. It is especially important if you are not married to your partner, because the law does not accord partners the same automatic rights of inheritance as spouses.

Assets which are jointly owned by unmarried partners on a joint tenancy basis would still pass automatically to the surviving partner under the rules of survivorship. Under the current intestacy rules, an unmarried partner has no rights to any assets that were not jointly owned (although the Law Commission has recently proposed to change this).

Making a will is also vital if you have children, as you can nominate guardians to care for them.

It is important to create a list of assets and debts and their approximate values. Include your property, investments, savings, insurance policies and pension.

In addition, consider details of individual bequests. Simply telling a relative that an item will be his or hers one day could cause trouble later.

You should receive professional advice on IHT planning as part of writing your will. Simple measures could save the beneficiaries of wealthier homeowners thousands of pounds in tax.

A key element of making a will is the naming of executors to ensure that your will instructions

are carried out. These are often unpaid friends or family members, typically a spouse or partner, but can be paid professionals, such as solicitors or a bank or building society. Unpaid executors can choose a solicitor to do the work and reclaim fees and expenses from your estate.

You should update your will every five years or so and whenever your circumstances are changed by a significant life event, such as marriage, divorce or a birth or death in the immediate family. Another example would be after a house purchase or move.

Whoever draws up your will, make sure one copy is kept secure or deposit one with a probate registry.

**“ People who die without a valid will, or intestate, leave costs and complications to their loved ones and often gift thousands of pounds to the State in what may be avoidable Inheritance Tax (IHT). ”**

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# Investing in a new decade

## What opportunities could the future hold?

Looking ahead to this new decade, what areas could be seen as opportunities for investors?

### EMERGING MARKETS

It is estimated that the world's population is set to increase by 50 per cent in the next 40 years, mostly from emerging markets, which include the 'BRIC' countries of Brazil, Russia, India and China.

While the proportion of people of retirement age will increase in Western economies, India should enjoy a demographic boost as a large group of the populace enters the most economically active part of their lives.

Although investing in a single country is a high-risk strategy, diversification that includes holdings within the BRIC countries and other areas such as Mexico, Hong Kong, South Korea, South Africa and Thailand could become an increasing attraction to many investors.

### HEALTHCARE

An increase in an aging population, particularly in Western economies and Japan, will be seen as positive for the healthcare sector over the next ten years. Investors may be attracted by the potential for higher returns driven by a need to spend significantly more money by governments and the private sector in the area of geriatrics.

### AGRICULTURE

It is forecast that, by the middle of this century, there will be an additional 2.5 billion people in the world to feed, leading to an increase in land and food prices. With China's shift to urbanisation and the emergence

of a powerful middle class in the developing world, investors may be attracted to investment in soft commodities such as cocoa, sugar, corn and wheat.

China's evolutionary demographic shift, when combined with the acute water shortages that China and others may suffer during this decade, could make for a highly rewarding investment opportunity.

### ENERGY

Global urbanisation will also feed through to growing demand for construction and infrastructure and these projects should drive demand for energy. The demand for uranium is also set to continue this decade as a result of a global resurgence of interest in nuclear power.

This is positive news for investors, with the UK and other countries planning an aggressive expansion programme for nuclear energy as it is seen as one of the cleanest forms of producing energy during this decade.

### TECHNOLOGY

A greater exposure to the semiconductor, software, media and internet, communications and computing industries means that investors are also likely to be attracted to these areas this decade.

### CURRENCY

Although currency is the most actively traded asset class in the world, it still remains one that is largely ignored by retail investors. Will this decade see a change in investor sentiment?

### ETHICAL

Climate change and water shortages could also drive future investment returns for investors, turning their attention to themes that include water, energy, agriculture and forestry.

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These are specialised investments and may not be suitable for everyone. They should only be considered as part of a balanced portfolio and professional financial advice should be sought prior to investing. These could be high-risk investments. If you would like to discuss how we could help you with your investment requirements, please contact us for further information.



## Pension apathy

### Why you should review your retirement options

Apathy and a failing system is costing pension savers dear, with retirees set to lose £14m this year on not hunting out the best annuity. If this inertia continues, it will cost Britain's pensioners a total income of £3.3bn over the next 20 years, according to the study by Oxford Economics, carried out on behalf of trade body, the Pension Income Choice Association (PICA).

At retirement, savers typically cash in their pension pot for an annuity, which provides an income for life. But consumers need to shop around in order to ensure that they get the best deal available to them by using what is dubbed the 'open market option' (OMO).

However, only one in three people approaching retirement review their options, according to Oxford Economics. And the current system means that the majority stay with their existing pension savings providers. The study shows that in 2010 alone, failings in the review process means pensioners could miss out on £13.9m in pension income, equating to £169 per policy holder.

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## Individual Savings Accounts

### A popular and simple way to save

The end of the 2009/10 tax year is rapidly approaching and now is the perfect time to consider your Individual Savings Account (ISA) options. These tax-efficient wrappers are a popular and simple way to save, as you don't pay any personal income tax or capital gains tax on any profit you may make.

ISAs were introduced by this government in April 1999 to replace Personal Equity Plans (PEPs) and Tax Exempt Special Savings Accounts (TESSAs) as a tax-efficient way to encourage people to save over the medium- to long-term.

### WHAT CAN YOU SAVE OR INVEST IN AN ISA?

#### ISAs can be used to:

- save cash and the interest will be tax-free
- invest in shares or funds – any capital growth will be tax-free and there is no further tax to pay on any dividends you receive

Savers born on or before 5 April 1960 (that is, aged 50 or over during the current tax year) can save up to £10,200. The full £10,200 can be invested in a stocks and shares ISA with one provider or up to £5,100 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same provider or another.

Savers who were born after 5 April 1960 can save up to £7,200. The full £7,200 can be invested in a stocks and shares ISA with one provider or up to £3,600 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same or another provider. From 6 April this year, the ISA limit will increase to £10,200, up to

£5,100 of which can be saved in cash for all ISA investors.

According to the age 50 rule, someone who is currently under age 50 but who will reach age 50 between 6 October 2009 and 5 April 2010 will only be able to pay in more than £7,200 during the 2009/10 tax year (up to a maximum of £10,200) once they have attained their 50th birthday. So, for example, if an investor will not attain age 50 until 1 March 2010, they will not be able to pay in more than £7,200 until 1 March 2010.

### TRANSFERRING MONEY FROM CASH ISAS TO STOCKS AND SHARES ISAS

If you have money saved from a previous tax year, you can transfer some or all of the money from a cash ISA to a stocks and shares ISA without this affecting your annual ISA investment allowance. However, please remember that once you have transferred your cash ISA to a stocks and shares ISA it is not possible to transfer it back into cash.

### HOW MUCH TAX WILL YOU SAVE?

#### Interest and dividends from savings:

- if you pay tax at the basic rate, outside an ISA you would usually pay 20 per cent tax (2009/10) on your savings interest
- if you pay tax at the higher rate, outside an ISA you would usually

pay tax at 40 per cent on your savings interest

- if you pay the 'savings rate' of tax for savings, outside an ISA you would pay tax at 10 per cent on your savings interest
- if you're a basic rate taxpayer inside or outside an ISA you pay tax at 10 per cent on dividend income. This is taken as a 'tax credit' before you receive the dividend and cannot be refunded for ISA investments
- if you're a higher rate taxpayer you would normally pay tax on dividend income at 32.5 per cent. In an ISA you won't get back the 10 per cent dividend tax credit element of this, but you will save by not having to pay any additional tax

### CAPITAL GAINS TAX (CGT) SAVINGS

If you make gains of more than £10,100 from the sale of shares and certain other assets in the tax year 2009/10, you would normally have to pay CGT. However, you do not have to pay any CGT on gains from an ISA.

**To make an informed decision about your ISA options, please contact us for further information.**

*The value of your investment can go down as well as up and you may not get back the full amount invested.*

## Mind the pension gap!

### Are you too optimistic about the age at which you'll be able to retire?

Just a third of people accept that they will have to work beyond 65, even though the state pension age is set to rise.

British workers remain overly optimistic about the age at which they will be able to retire, with just a third conceding they will work beyond 65, a survey shows. And just a tenth of people believe they will still be working into their 70s, according to the research by Croner, the workplace consultancy business.

The You Gov poll questioned almost 1,400 working adults and found that 22 per cent see themselves working until just 60 or younger and 44 per cent until age 65. That is despite the state pension being a likely target for all political parties as rising life expectancy increases the cost to the public purse. There are four working people for every pensioner today, and the figure is expected to drop to 2.5 per pensioner by 2030, according to the Department for Work and Pensions.

“British workers remain overly optimistic about the age at which they will be able to retire, with just a third conceding they will work beyond 65, a survey shows. And just a tenth of people believe they will still be working into their 70s.”

If you would like to discuss your retirement objectives or have a review of your current arrangements, please contact us.

# Investment solutions

## Achieving the most efficient mix of risk and return

Do you currently have the most suitable method of holding and structuring your investments to achieve an efficient mix of risk and return that is specific to your particular objectives? And are you fully utilising the income, capital gains and inheritance tax advantages of these investments, particularly as the taxation regime governing them may be subject to change in the future? We have provided a selection of tax-efficient solutions you may wish to discuss with us.

The over-50s were able to shelter more of their money from the taxman on 6 October last year when Individual Savings Account (ISA) limits rose by £3,000 to £10,200, or £20,400 for a couple. Everyone aged 18 and over will be given the new limit from 6 April 2010.

Venture Capital Trusts (VCTs) enable individuals to invest in unquoted and AIM-listed firms, and give tax-free capital gains as well as income (usually taxed at 32.5 per cent for 40 per cent taxpayers). They also attract initial tax relief at 30 per cent, which is an income tax relief that is given as a tax reducer, as long as they are held for five years. The maximum investment is £200,000 a year. This type of investment does come with a high degree of risk.

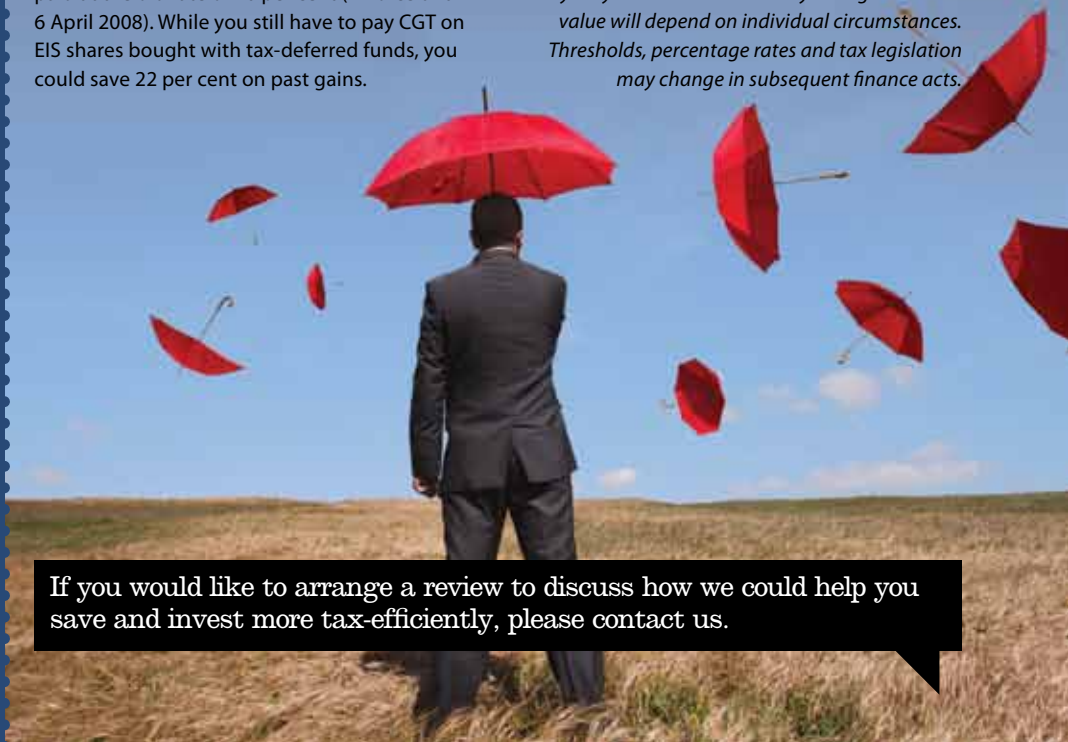
Enterprise Investment Schemes (EISs) invest in firms typically involved in a particular sector or project, and give income tax relief of 20 per cent on up to £500,000 a year, if held for three years. Gains are tax-free, but not income, and investments fall outside your estate for inheritance tax purposes after two years. This type of investment does come with a high degree of risk.

EISs also allow you to defer Capital Gains Tax (CGT) incurred in the previous three years or the subsequent 12 months, which is attractive if you paid at the old rate of 40 per cent (in force until 6 April 2008). While you still have to pay CGT on EIS shares bought with tax-deferred funds, you could save 22 per cent on past gains.

Onshore investment bonds are taxed internally at the 20 per cent basic rate. However, up to 5 per cent a year of the original investment (a minimum of £5,000, but no maximum) can be withdrawn for 20 years without any immediate tax liability. And you can 'roll up', taking 3 per cent income in one year and 7 per cent the next. If you become a basic rate or non-taxpayer when the bond matures, there is no further tax to pay.

Gifted income-producing assets to your spouse, where he or she is a lower rate or non-taxpayer, could save high earners a considerable sum. Say you had a portfolio of investment properties worth £500,000, which produced an income of 5 per cent or £25,000 a year. If you were a high earner and held the investments in your own name, you would be liable for tax on the income of £12,500 from the 2010/11 tax year. However, if you gifted the assets to a spouse who had no other income, the first £6,475 would be tax-free and the remainder taxed at 20 per cent, so just £3,705, which equates to a £8,795 tax saving. This example is based on the original owner having total taxable income above £150,000 (hence the liability on the £25,000 rental income would be 50 per cent rather than 40 per cent).

*Venture Capital Trusts and Enterprise Investment Schemes are specialised, complex investments and are not suitable for everyone. They should only be considered as part of a balanced portfolio and advice should be sought prior to investing. These could be high risk investments. The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.*



If you would like to arrange a review to discuss how we could help you save and invest more tax-efficiently, please contact us.

# Tax facts

## What you need to know

### CHECK YOUR PAYE CODE

You should check that you are on the correct code. Don't just assume that if tax is being deducted at source it must be right. If you have been paying too much tax, you can claim back the excess for up to six previous years. If you have been paying too little, the Revenue can claim it back.

### MAKE FULL USE OF YOUR PERSONAL ALLOWANCES

We all have a personal allowance, currently £6,475 (under 65) a year, which is the amount you are allowed to earn before you start paying tax. If appropriate, couples should consider maximising their personal allowances by channelling savings and investments towards the person who pays the least amount of tax.

### CONSIDER CARRYING OUT A SALARY SACRIFICE

Salary sacrifice means giving up the right to part of your salary in exchange for a benefit, such as an employer pension contribution. Both you and your employer will save money on National Insurance and the employer also saves on Corporation Tax.

### MAKE THE MOST OF TAX RELIEF AT YOUR HIGHEST MARGINAL RATE ON PENSION CONTRIBUTIONS

You should make the most of tax relief at your highest marginal rate on pension contributions. This tax break is particularly valuable if you are a higher rate taxpayer and so potentially receive relief at 40 per cent (2009/10) on your pension contributions that fall within the higher rate band.

### BRING FORWARD DIVIDEND PAYOUTS TO THIS TAX YEAR

If you are a high earner and work for a family company or have your own company, you may wish to consider bringing forward income distribution from future years to this tax year. If you pay yourself a dividend this year, and assuming you are a higher rate taxpayer, you would currently be paying an effective rate of 25 per cent on dividends. But from the next tax year you would, as a top rate taxpayer, be paying an effective rate of 36.1 per cent on your dividends.

### MAKE SURE YOU RECEIVE YOUR AGE ALLOWANCE IF YOU ARE OVER 65

Make sure you receive your age allowance if you are over 65. This allowance is currently worth £3,015 on top of the normal personal allowance for those aged 65 to 74 and £3,165 for those over 75, taking their total personal allowance to £9,490 and £9,640 respectively. Those entitled to it should make

sure they claim it, as it is sometimes not included automatically in an individual's tax coding.

### BRING FORWARD INCOME

Shareholders in their own businesses who take money as dividends will be taxed at 32.5 per cent until 5 April, rising to 42.5 per cent the following day. On £10,000-worth of dividends, you could save £1,000 in tax by bringing the payment forward. Bear in mind, though, that you would also have to pay the tax via your self-assessment form a year earlier.

### SHARE INCENTIVE SCHEMES

High earners could ask their employer to set up a share incentive scheme ahead of the changes so that, instead of taking cash bonuses, they would receive shares in the firm. This converts income taxed at up to 40 per cent today (or 50 per cent from 6 April 2010) into gains taxed at the flat rate of Capital Gains Tax (CGT) of 18 per cent.

### DEFER TAX RELIEF

Consider deferring claims for tax relief until the 2009/10 tax year has ended on 5 April, boosting potential tax relief to 50 per cent from 40 per cent.

### REVIEW FAMILY TRUSTS

It may be worth drawing income arising in a family trust. This is taxed at 20 per cent on up to £1,000 and 40 per cent thereafter, rising to 50 per cent from 6 April 2010. However, this will depend on the type of income, as dividends would be taxed at either 10 per cent (if within the £1,000 band) or 32.5 per cent (42.5 per cent from 6 April 2010).

Even trusts with a small amount of income will be subject to tax at 50 per cent. Alternatively, beneficiaries could draw the income if their other earnings are below £150,000 – beneficiaries of a discretionary trust have no entitlement to income. The trustees could choose to distribute the income but it would have to come with a 40 per cent (50 per cent from 6 April 2010) tax credit. The increase in tax rate will only affect 'non-Income In Procession' trusts which pay RAT ('Rate Applicable to Trusts').

### CRYSTALLISE PENSION BENEFITS

People in their early fifties who want to retire early or release tax-free cash from their pensions may wish to consider doing so before 5 April, when the minimum

retirement age goes up from 50 to 55. However, there are many instances where it is not advisable to take the cash. For example, if your pension has a guaranteed annuity rate, you may be better off using your entire fund to buy an annuity. If you are in a final-salary scheme you could choose to take extra tax-free cash and a reduced pension, although take care as the income you would give up is guaranteed, is inflation-proofed and has a widow's or widower's benefit. However, in other cases it may be worth crystallising benefits. Equally, it may be worthwhile if you want to free up cash to make gifts for Inheritance Tax planning or make other tax-efficient investments.

### REVIEW HOLIDAY LETS

If you let property short-term, this is the final tax year in which you can offset expenses against income, so get any work done on the property before 6 April 2010. It must be let for at least 70 days a year, excluding lets exceeding 31 days, and be available for rental for at least 140 days. If you are the owner of such a property you have until 5 April 2010 to take advantage of the current furnished holiday lettings tax reliefs. These include flexibility with using income losses, additional capital allowances, certain capital gains reliefs and relevant UK earnings treatment for pension purposes.

*Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.*

**This article does not constitute advice and you should seek professional financial advice with regards to the most appropriate ways of structuring your affairs to maximise tax efficiency. For further information or to discuss your requirements, please contact us and we'll provide you with a complete financial wealth check.**

# BOOSTING YOUR PENSION

## Act fast before the end of the tax year

Here are some useful hints that may improve your pension prospects.

Some employers may allow selected staff aged 50 and over (rising to age 55 and over from 6 April 2010) to claim an income from their pension while they work full time. This option has been made possible by changes to pension rules in 2006, known at the time as A-Day. For members of defined benefit schemes, the size of the annual pension payment is cut by a certain percentage for each year the worker claims their pension early. However, members continue to accrue further pension rights under the plan, which is typically based on career-average pay, even when claiming a pension and salary in tandem.

You can take up to 25 per cent of your pension as an authorised lump sum payment, which will be tax-free as long as it does not exceed 25 per cent of your available standard lifetime allowance.

It is also possible to take up to 25 per cent as a tax-free lump sum and then vary the income taken from the pension by leaving the fund invested and going into an unsecured pension (formerly income drawdown). This can be done with a personal pension, such as a Self-Invested Personal Pension (SIPP), or an occupational scheme, although few of these allow it. It is possible to take between nil and 120 per cent of rates set by the Government Actuary's Department (GAD). This is reviewed every five years. Income levels can be changed within these boundaries or an annuity bought at any stage.

Funds can be passed on to beneficiaries when you die, subject to a 35 per cent tax charge before the age of 75. If paid as a lump sum, residual funds paid as a dependant's pension would not be subject to a 35 per cent tax charge.

GAD rates are tied to gilt yields, which are near all-time lows due to the Bank of England's programme of buying up gilts (yields fall as prices rise). However, with a 'scheme pension', available via a SIPP, it is possible to take more money out of a pension fund. Rates are calculated by an actuary rather than GAD, taking into account assumptions of how long you are likely to live, i.e. the poorer your health, the higher the rate.

If you have a Small Self-Administered Scheme (SSAS), your business (sole trader, partnership, limited company or limited liability partnership) can borrow money from your pension fund at very competitive rates, a minimum of 1 per cent over the rates offered by the six main clearing banks. This means your business could potentially borrow money which can be fixed for up to five years. In this way, directors and business owners can access vital funding they might not be able to get from their bank. Please note there are limitations on what this lending can be used for.

Although the government performed a U-turn on allowing savers to put single residential properties, such as their second homes, into their pension funds in 2006, you can tap into the residential property market if you have a SIPP or SSAS through a genuinely diversified commercial vehicle.

You can also use existing investments to make a pension contribution by selling them and buying them back in your SIPP, in what is known as 'bed and SIPP'. There is also the option of making 'in-specie' contributions of assets that are currently owned by the individual (or an employer) into the SIPP.

From the start of the new tax year on 6 April 2010, the withdrawal of the personal allowance by £1 for each £2 earned over £100,000 means that those earning between this amount and £112,950 will effectively get 60 per cent tax relief on pension contributions. That is because they will not only get 40 per cent tax relief on contributions, but also some or all of their personal allowance back depending on how much they contribute.

If you die before taking any benefits from your personal or occupational pension scheme, the entire fund will pass tax-free to your chosen beneficiaries. These will, however, be added to your beneficiaries' estates for Inheritance Tax purposes. Any lump sum paid on death before crystallisation (an uncrystallised funds lump sum death benefit if it is a money purchase scheme or a defined benefits lump sum if it is a defined benefits scheme) will be tax-free as long as it is paid within two years of death and it is within the deceased's available lifetime allowance.

While the payment of a dependant's pension would not be a Benefit Crystallisation Event, it would be subject to Income Tax in the hands of the recipient (especially given that most defined benefits schemes – and contracted out rights whether held in a defined benefits or defined contributions scheme – must provide a pension if there is a spouse).

Inheritance Tax is levied at 40 per cent, so a £200,000 pension fund could potentially incur tax charges of £80,000 if this is over and above other assets worth over the current nil-rate band of £325,000. You could plan for this by setting up a 'bypass trust'. Your beneficiaries, usually a spouse or partner, would be a trustee and have full access to income and capital from the trust as required

**Retirement may seem a long way off, but are you saving enough now to live well in years to come? And if you're approaching retirement, do you have enough saved for a comfortable retirement? It may not be too late to boost your retirement savings if you take action now. Or if you are now retired, you'll need a strategy to enjoy your new lifestyle and make your savings last. If you would like to discuss the retirement options available to you, please contact us for further information.**

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

# IS IT TIME YOU HAD A WEALTH CHECK?

## Start the new decade with a new bill of wealth

At every stage in our lives, there are certain circumstances that stand out as important, but it is all too easy to put off planning in our earlier years. We have highlighted some of the important stages in life and the circumstances you might find applicable to your particular situation.

### 20 TO 30 SOMETHINGS

Delaying the start of your retirement savings could have a significant impact on the level of retirement fund you eventually accumulate. When you're in your 20s to 30s, retirement may seem a long way off. However, the reality is that if you hope to save a fund large enough to provide you with an income equivalent to two-thirds of your final salary, you would have to save nearly half your income from your 20s until you retire.

Understandably, you may be reluctant to tie up your money in a fund that may not be touched until the age of 55. So while pensions offer the benefit of tax relief, which will help your savings grow even more over the long-term, other investment vehicles such as Individual Savings Accounts (ISAs) can provide more flexibility, as you have access to your money should you need it urgently in the future.

You may also be happier to take more risk with your investments at this stage, as you have more time to make up losses on the way.

### 40 SOMETHINGS

During this decade, you should plan to put as much as possible into your pension. You may find that you can lock up more of your assets now, so it is worth discussing with us the option of switching your ISA holdings to your pension provision to benefit from your higher rate of tax relief. It may also be appropriate to consider using a wider range of assets, but the difficulty will be trying not to be too cautious with your savings at this stage.

### 50 SOMETHINGS

Many people may be coming to the end of a mortgage, with children leaving home. The final decade before retirement is often the most important from an investment perspective. At this point we can advise you how you could build even greater levels of diversification into your retirement funds, including money held in non-equity assets.

These might be cash deposits, bonds or other fixed-interest securities such as

government gilts. This is also a good time to request a state pension forecast, so that you can get a reasonable idea of what this form of income could be in retirement.

### 60 SOMETHINGS

Now may be the time that you are considering significantly reducing your risk. You may be deciding whether you need to secure a fixed income, or if you can withstand any investment volatility after you have retired.

If you need certainty now, you could buy an annuity with your pension savings, although you do have the option to take 25 per cent of your pension fund as a tax-free lump sum, perhaps to reinvest elsewhere.

Another option is to consider an unsecured pension (formerly income drawdown). You leave your pension invested, but receive an income from the fund. However, you must be absolutely certain that you are happy with the additional risk. This stage of life is not a time to take risks with your retirement fund.

### 70 SOMETHINGS

Most people will be required to use their pension savings to buy an annuity by the age of 75. When it comes to buying an annuity, there is a vast array of options. You can choose to inflation-proof your annuity, or buy a guarantee so that it continues to pay out for at least five years. You might also want an income to continue for your spouse after your death.

All these options will reduce the amount of income you receive initially. Generally, the older you are, the higher the income you will receive.

We can help you search for the best annuity rate on the open market – you should never just take the rate offered by your pension provider. In your 70s, you are more likely than not to qualify for an enhanced annuity rate or 'impaired life' annuity if you are unwell or have a poor lifestyle. There are also some alternative means of getting the most out of your pension at this age, so why not contact us to find out how?

**This article does not constitute advice and you should seek professional financial advice. If you would like to discuss how we could help you with your investment requirements, please contact us for further information.**

# Critical illness cover

## Protection for the unexpected

Critical illness policies are the type of policy nobody wishes to have to claim against, yet evidence shows that these are vitally important policies that can support families and secure their financial wellbeing during the worst of times.

Most people buy critical illness cover when they take on a major financial commitment, but it's important to receive professional advice. It also pays to start young when premiums are relatively cheap, rather than leaving it until later in your life when the price of cover can rise substantially or you may not be able to obtain the level of cover you need.

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

But not all conditions are necessarily covered. In May 2003, insurers adopted new rules set by the Association of British Insurers that tightened the conditions under which you could claim on critical illness insurance policies.

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

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

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

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

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

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

Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy. Most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

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

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

### ACTIVITIES OF DAILY LIVING INCLUDE:

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



# PRE-BUDGET REPORT

## The key points at a glance

The key points at a glance from Chancellor Alistair Darling's third Pre-Budget Report.

### ECONOMY

- UK economy expected to contract by 4.75 per cent this year, with a return to growth in the fourth quarter.
- Forecasts UK will grow 1-1.5 per cent next year and by 3.5 per cent in 2011/12.
- Inflation to rise from 1.5 per cent to around 3 per cent early next year before falling back.

### PUBLIC FINANCES

- Provisions for potential impact from bank bail-outs on taxpayer revised down from £50bn to around £10bn.
- Borrowing to hit £178bn this year and £176bn next year, higher than Budget forecasts.
- As share of GDP, borrowing to be 12.6 per cent this year, 12 per cent next year, then 9.1 per cent, 7.1 per cent, 5.5 per cent in 2013/14 and 4.4 per cent in 2014/15.
- Net debt forecast to reach 56 per cent of GDP this year, 65 per cent next year and 78 per cent by 2014/15.
- UK deficit to be halved over four years.

### TAX

- VAT will return to 17.5 per cent on 1 January as planned, with no other changes in VAT.
- Bingo Duty to be cut from 22 per cent to 20 per cent for next year's Budget.
- In April 2012, point at which people start paying 40 per cent income tax to be frozen for one year, hitting those earning more than £43,875.

### NATIONAL INSURANCE CONTRIBUTIONS

- All employer, employee and self-employed rates of National Insurance to rise by a further 0.5 per cent from April 2011. This is in addition to the 0.5 per cent increase already announced in March 2009, so the actual increase will be 1 per cent.
- Starting point from which National Insurance is payable to be raised, so that no-one earning less than £20,000 will pay any more in contributions.

### PENSIONS

- Basic state pension will rise by 2.5 per cent in April, a real-terms increase of nearly 4 per cent – with effect from 2010/11.
- Employer pension contributions to be included in definition of tax income relating to pensions tax relief for those earning over £130,000 – with effect from 2011/12.

### PUBLIC SECTOR

- Senior civil service pay bill to be cut by up to £100m over three years.
- Any new government appointment over £150,000 and all bonuses over £50,000 to require Treasury approval.
- All public sector pay settlements capped at 1 per cent for two years from 2011, while recognising the special circumstances of the armed forces.
- State contributions to public service pensions for teachers, councils, NHS and the civil service to be capped by 2012, saving £1bn a year.

### INHERITANCE TAX

- Individual Inheritance Tax allowance to be frozen at £325,000 for the next year.

### BANKS

- No windfall tax on banks.
- Bonuses above £25,000 will subject to a 50 per cent one-off tax. This tax will be payable by the bank and (a) it only applies to the amount of any bonus that exceeds £25,000, and (b), in addition to being subject to National Insurance Contributions, as a higher rate taxpayer

the individual receiving the bonus will be taxed on the whole bonus at 40 per cent/50 per cent.

### BUSINESS

- Enterprise Finance Guarantee scheme for bank loans to small businesses to be extended for a further 12 months, guaranteeing a further £500m of loans.
- 10 per cent Corporation Tax rate to be introduced on income that arises from patents in the UK.
- Strategic Investment Fund to support hi-tech projects given £200m boost.
- The Time To Pay scheme, allowing firms to spread tax payments, will be extended for as long as needed.
- Empty property relief threshold to be extended so that 70 per cent of all empty properties will be exempt.
- Increase in Corporation Tax for smaller companies to be deferred, leaving the 2010 tax rate unchanged.

### BENEFITS

- Benefits linked to inflation, such as Child Benefit, will rise by 1.5 per cent in April.
- Support for Mortgage Interest Scheme will be extended for further six months.

**To discuss your financial planning requirements or to obtain further information, please contact us.**

# INVESTING AT A TIME OF LOW INTEREST RATES

## Investment opportunities when interest rates are low

If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, we can provide you with the professional advice you need to enable you to consider all the options available. In addition, we can help you determine what levels of income you may need and work with you to review this as your requirements change. Another major consideration is your attitude towards risk for return and availability. This will help to determine which asset classes you are comfortable investing in.

Cash, especially in the current climate, is an important element for any income investor. One option you may wish to discuss with us is cash funds, dubbed 'money market' portfolios. These use the pooled savings of many investors to benefit from higher rates not available to individuals. They can invest in the most liquid, high-quality cash deposits and 'near-cash' instruments such as bonds. But, unlike a normal deposit account, the value of a cash fund can fall as well as rise, although in theory, at least, it should not experience volatile swings.

Bonds are a form of debt, an 'IOU' issued by either governments or firms looking to raise capital. As an investor, when you purchase a bond you are essentially lending the money to the government or company for a set period of time, which varies according to the issuer. In return you will receive interest, typically paid twice a year, and when the bond reaches maturity you usually get back your initial investment. But you don't have to keep a bond until maturity. You can, if you wish, sell it on.

Much of the government's debt, including the additional money being used to aid the economy

and refinance the banks, is in the form of bonds it issues. Gilts are bonds issued by the British government. The advantage of gilts is that the government is unlikely to fail to pay interest or repay its debt, so they are generally the safest investments. Government bonds pay a known and regular income (called the coupon) and a lump sum at maturity (called the par). They typically perform well as the economy slows and inflation falls.

Corporate bonds operate under the same principle as gilts, in other words companies issue debt (bonds) to fund their activities. High-quality, well-established companies that generate lots of cash are the safest corporate bond issuers and their bonds are known as 'investment grade'.

High-yield bonds are issued by companies that are judged more likely to default. To attract investors, higher interest is offered. These are known as 'sub-investment grade' bonds.

The risks related to investing in bonds can be reduced if you invest through a bond fund. The fund manager selects a range of bonds, so you are less reliant on the performance of one company or government. The 'distribution yield' gives a simple indication of what returns are likely to be over the next 12 months. The 'underlying yield' gives an indication of returns after expenses if all bonds in the fund are held to maturity.

An alternative route to generating income is by investing in stocks that pay a dividend. If a firm is making good profits it can decide to share this with investors rather than reinvest it in the business, so essentially dividends are the investors' share of company profits. Share prices of companies that

regularly pay dividends tend to be less volatile than other companies, but remember that company shares can fall in value. In addition, dividends can be cut if a company finds itself in need of extra cash.

Another way to invest in equities for the purpose of obtaining a better income is via an equity income fund. The fund manager running the portfolio selects a wide range of equities, so you are less reliant on the performance of any one particular company, and will try to select companies that pay regular dividends.

**There are many different ways to generate more income. We can help you make informed decisions about the investment choices that are right for you. Any number of changing circumstances could cause your income to diminish, some inevitable and some unpredictable – new taxes and legislation, volatile markets, inflation and changes in your personal life. To discuss structuring your income requirements in a way that minimises the impact of these changes, please contact us.**

*These investments do not include the same security of capital which is afforded with a deposit account. 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.*