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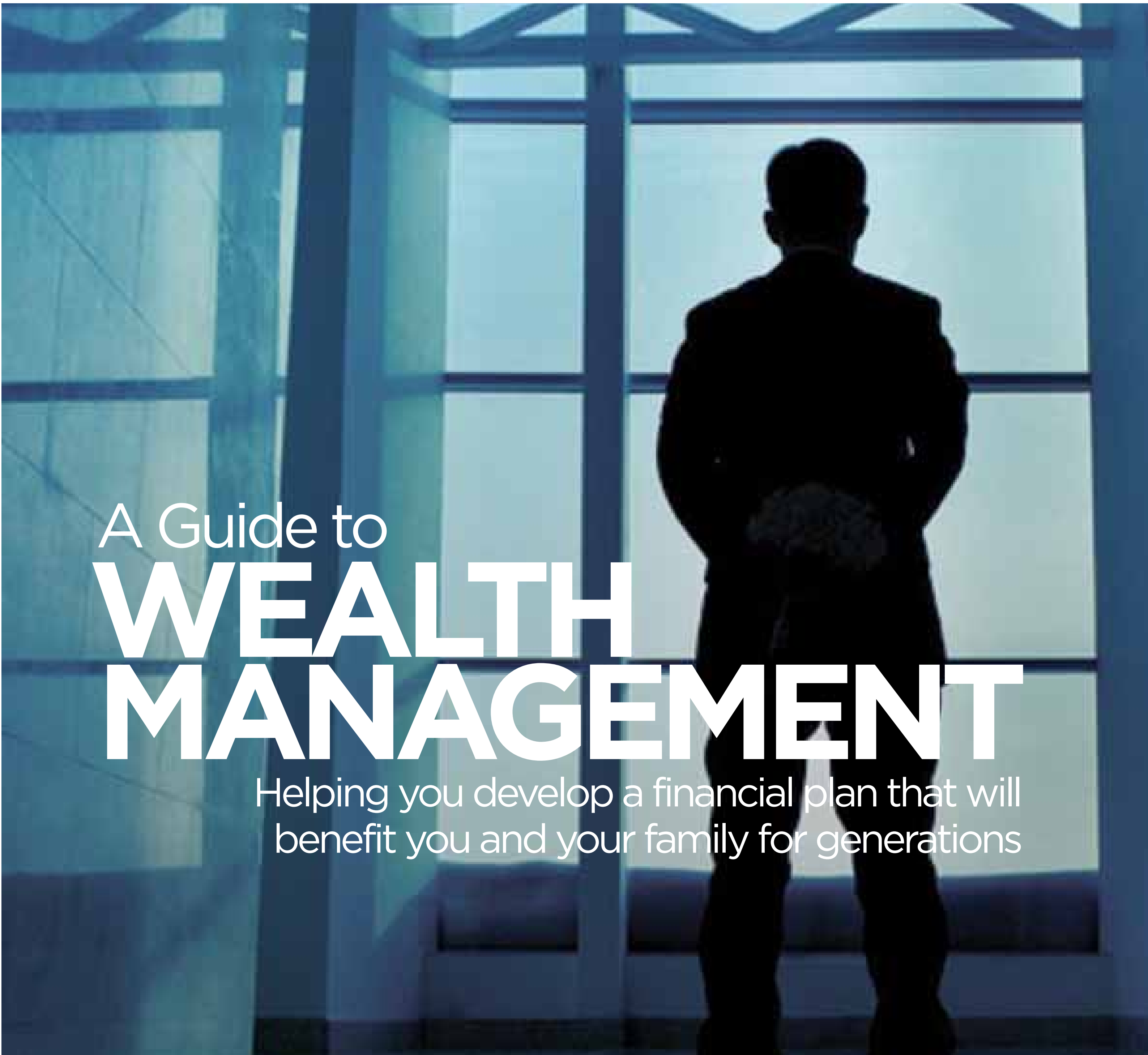

A Guide to WEALTH MANAGEMENT

Helping you develop a financial plan that will benefit you and your family for generations

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A Guide to Wealth Management

Helping you develop a financial plan that will benefit you and your family for generations

Welcome to 'A Guide to Wealth Management.' As your life changes over time it's important to ensure that your financial objectives continue to meet your needs.

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

Whether you are rapidly progressing in your career, or building your business, and are looking to build your wealth, we provide the professional advice required to ensure you attain your goals. Equally, if you've already built your wealth and wish to see it grow, our approach to total wealth management can help you continue to achieve this objective.

Once we have all the information we can develop a financial plan that will benefit you and your family for generations. If you would like to discuss the range of personal and corporate services we offer, please contact us for further information.

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Creating wealth

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

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

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

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

National Savings & Investments

National Savings & Investments (NS&I) offer a range of savings and investments to suit different people at different stages of their life. All the money you save or invest with NS&I will be 100 per cent secure, and is backed by HM Treasury – there is no overall limit on how much is guaranteed.

NS&I are to relaunch index-linked savings certificates pegged to the retail prices index (RPI). NS&I withdrew the certificates in July 2010 after they became over subscribed. Currently they are only open to clients who have certificates that are maturing.

Returns will continue to be linked to RPI and tax-free. The maximum that can be saved is £15,000 per individual per investment. Typically certificates pay a specified rate plus RPI. The new certificates will be on sale at a later date.

The Chancellor, George Osborne has agreed a £2bn target for new funds to be raised by the government bank, which will pave the way for the reintroduction of bonds paying out interest based on the RPI.

In a statement, NS&I said: "NS&I's target for net financing for 2011/12 is £2bn in a range of £0bn to £4bn. This positive net financing target will allow NS&I to plan the reintroduction of savings certificates for general sale in due course. Currently only savers with maturing investments in savings certificates can continue to rollover their investments for a further term.

"Subject to market conditions, NS&I expect to be bringing savings certificates back on general sale in 2011/12. NS&I can also confirm that a new issue of index-linked savings certificates will retain index-linking against the RPI".

Pooled investments

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

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

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

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

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an actively managed fund is paid to invest so as to do better than the index (beat the market) or to generate a steadier return for investors than tracking the index would achieve. However, active management does not guarantee that the fund will outperform the market or a tracker fund.

Unit trusts

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

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

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and for the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

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

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

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

Open-ended investment companies

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

An OEIC, pronounced 'oik', is a pooled collective investment vehicle in company form. They may have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund moving your money from one sub fund to another as your investment priorities or circumstances change. OEICs may also offer different share classes for the same fund.

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

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

Investment trusts

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

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

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

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

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

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

Individual Savings Accounts

The earlier you invest in the tax year, you can make sure that you are using your Individual Savings Account (ISA) allowance to its full advantage and the longer your money is outside the reach of the taxman.

ISAs are tax-efficient savings, which means that you do not have to declare any income from them, and you can use an ISA to save cash or invest in stocks and shares.

What makes them so popular, compared to a standard savings account, is that cash ISAs let you save without having to pay any income tax on the interest. With a stocks and shares ISA you don't pay any personal tax on any income received or increase in the value of your investment.

WHAT CAN YOU SAVE OR INVEST IN AN ISA?

ISAs can be used to:

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

ISA CONTRIBUTION RULES

Because of the tax advantages of an ISA, the government sets limits on how much you can invest in a given tax year. In the current tax year (2011/12) the maximum you can invest overall is £10,680.

Up to £5,340 of this limit can be invested in a cash ISA.

With the balance £5,340 being invested into stocks and shares.

Alternatively, you can put the whole £10,680 into a stocks and shares ISA.

Stocks and shares ISAs are riskier than cash ISAs and enable you to put money into a range of investments, such as unit trusts, open-ended investment companies (OEICs - similar to unit trusts) and investment trusts, as well as government and corporate bonds.

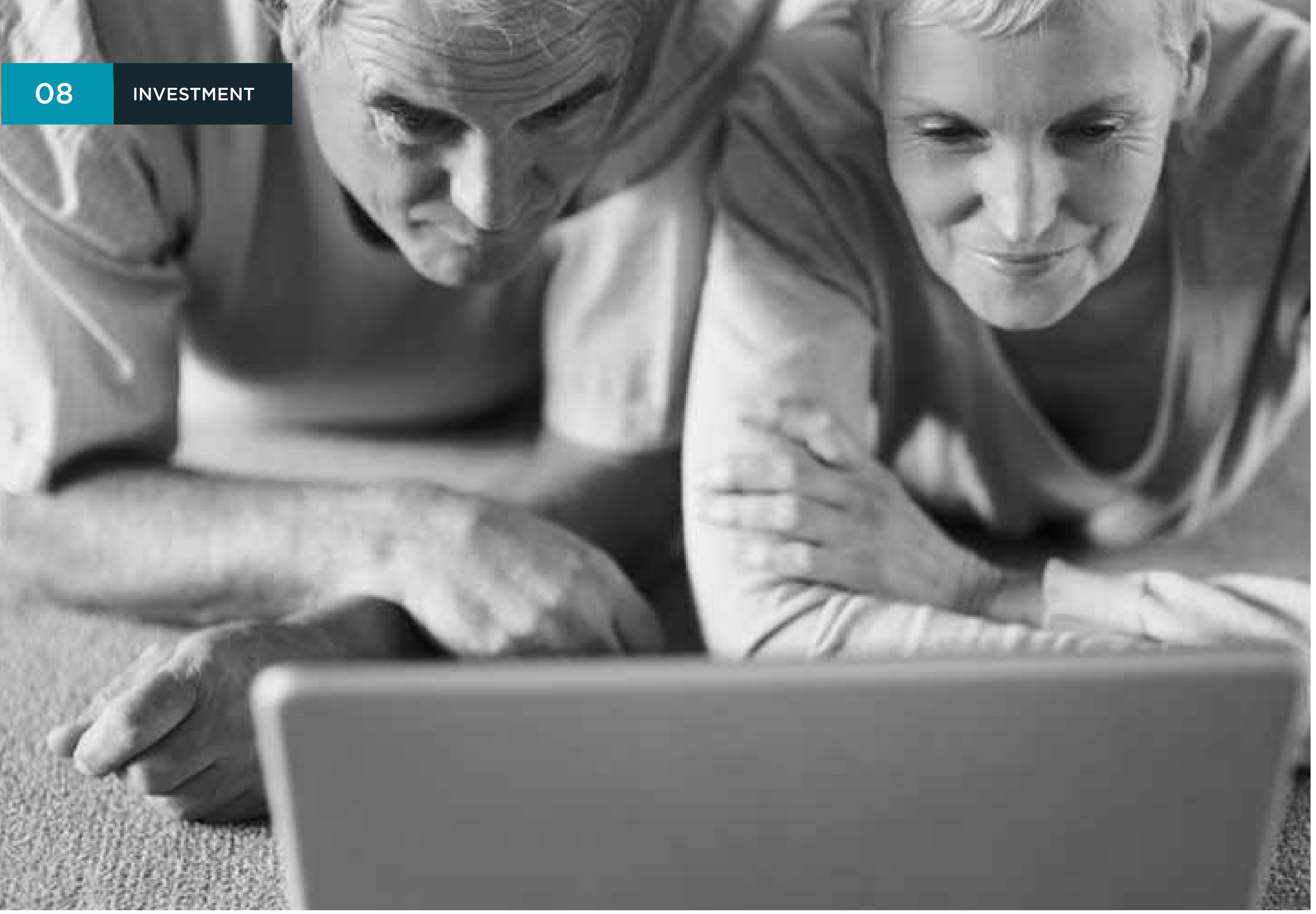
This means your investment can go down as well as up.

You can also buy individual shares and put them into a stocks and shares ISA – this is known as a self-select stocks and shares ISA.

The earlier you invest in the tax year, you can make sure that you are using your Individual Savings Account (ISA) allowance to its full advantage and the longer your money is outside the reach of the taxman.

ISA CONTRIBUTION EXAMPLES

Cash ISA	Stocks and Shares ISA	Total ISA Allowance
£1,680	£9,000	£10,680
£3,480	£7,200	£10,680
£5,340	(maximum £5,340 cash allowance)	£10,680
£0	£10,680 (maximum stocks and shares allowance)	£10,680



Individual Savings Accounts (cont)

TAX MATTERS

With a cash ISA your money is at no more risk than any other savings account and a great way for you – not the taxman – to keep more of your money. For every £1 of interest you earn on your savings, instead of the taxman collecting 20p of income tax (if you're a basic rate taxpayer), you get to keep it all.

Unlike a cash ISA, stocks and shares ISAs aren't completely tax-free. Buying share-based investments through ISAs saves you tax only if you're a higher-rate taxpayer, or are likely to pay capital gains tax.

However, if you use your stocks and shares ISA to invest in interest-bearing investments, like corporate bonds, the interest is tax-free whatever tax band you fall into.

TRANSFERRING ISA MONEY

As well as currently being able to invest your full ISA allowance of £10,680 in a stocks and shares ISA, you can also transfer some or all of the money held in previous tax year cash ISAs into a stocks and shares ISA.

A stocks and shares investment is a medium to long-term investment, but remember the value of your investment can go down as well as up, and you may get back less than you originally invested, and that tax rules may change in the future and taxation will depend on your personal circumstances.

ISA FACTS

Each 6 April you get a new ISA limit, regardless of the present balance in your account.

All PEPs are now stocks and shares ISAs.

All Mini cash ISAs, TESSA-only ISAs, and the cash component of stocks and shares ISAs from before April 2008 have become cash ISAs.

ISAs can only be held individually and cannot be held as a joint account, and account holders must be 18 or over (16 or over if you are only investing in a cash ISA), and a UK resident.

There is no need to include ISA holdings on your tax return.

SAVINGS FOR CHILDREN IN BRITAIN

A new tax-efficient children's savings account, known as the Junior ISA, is available from 1 November 2011. The decision to introduce the Junior ISA was unveiled last October following the announcement that Child Trust Funds (CTFs) would cease for babies born after 2010. Parents can either save in a cash ISA or invest in a stocks and shares ISA.

Parents, family and friends can contribute up to £3,000 a year. Any child resident in the UK who isn't eligible for a Child Trust Fund:

- Children born on or after 3 January 2011
- Under 18's born before September 2002

However, unlike CTFs, there will be no government contributions to the Junior ISA.

Investment bonds

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

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

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

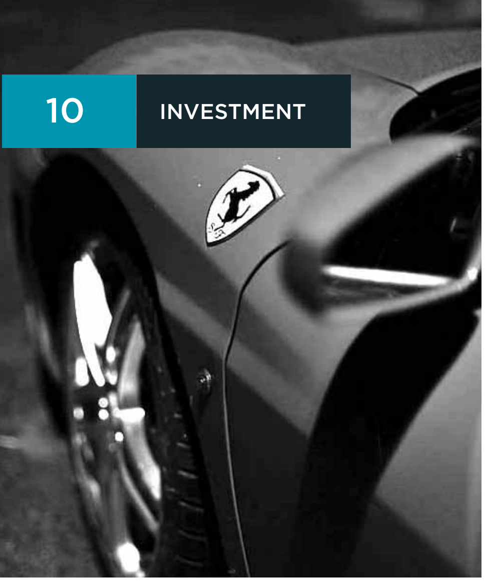
No capital gains tax is paid on the gains that you make, and you do not pay basic rate income tax on any income. As a higher rate taxpayer you may become liable to income tax at a rate equal to the difference between the basic rate and the higher rates (20 per cent), but not until your cash in your bonds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

Income distribution bonds

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

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

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



Investing for income

During these difficult economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. This is why the Bank of England has aggressively cut them.

If you are an income-seeker, much will come down to your attitude to risk. If you want no or very low risk, you may wish to consider a traditional cash bank account and accept that income levels are likely to remain low for the foreseeable future. However, if you're further up the risk scale you may wish to consider some of these alternatives.

GILTS

If you're willing to take on a slightly higher degree of risk and you need the extra income, you may wish to consider gilts (or gilt-edged stocks), which are bonds issued by the government and pay a fixed rate of interest twice a year. Gilts involve more risk than cash, because there's a chance the government won't be able to pay you back. It's highly unusual for a government to default on a debt or default on the interest payments, so they have been considered safe. But in this current economic climate, this risk increases.

You are not guaranteed to get all your capital back under all circumstances. Not all gilts are bought from the government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall. There are other types, such as index-linked gilts, which form the largest part of the gilt portfolio after conventional gilts. Here the coupon is related to movements in the Retail Prices Index (RPI) and is linked to inflation.

CORPORATE BONDS

Next along the risk scale if you are looking for a higher yield are corporate bonds. These are issued by companies and have features that are exactly the same as gilts except that, instead of lending money to the government, you're lending to a company. The risk lies in the fact that companies may go bust and the debt may not be repaid. They have a nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year, usually fixed. The value of the bonds themselves can rise and fall; however, the fact that bonds are riskier at the moment means companies are paying more in order to induce people to buy their debt. There are an increasing number of global bond funds entering the market that may enable you to get value from a lot of different markets.

EQUITY INCOME

If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money. However, for investors who are prepared to see their investments fluctuate in value while hopefully providing a stable income that grows over time, you may wish to consider equity income funds. These invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends will be your income.

GLOBAL EQUITY INCOME FUNDS

Further up the risk scale are global equity income funds. These are similar to UK funds, except that there are only a handful of the big blue-chip firms that pay reliable dividends in the UK, whereas global diversification offers a significant range of companies to choose from. Investing in other currencies brings an added level of risk, unless the fund hedges the currency.

EQUITY INCOME INVESTMENT TRUSTS

Equity income investment trusts are higher risk but similar to other equity income investments. They are structured differently from unit trusts and open-ended investment companies. Investment trusts are closed-ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This means they also have more potential for greater returns once better times resume. Investment trust share prices are therefore often at a 'discount', or 'premium' to the value of the assets in the fund.

Absolute return funds

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.

Spreading risk

During this current recessionary climate, if you are seeking higher returns from your investments, you may consider a combination of the following: corporate bonds, equity income, absolute return funds and emerging markets. This will, of course, depend a great deal on your attitude towards risk.

In times of economic uncertainty you may wish to consider spreading the risk by having a good mix of assets. It is important to get the right balance within your portfolio and this will also depend upon your individual needs.

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 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.

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.

Offshore investments

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

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

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

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

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

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

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

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

Safeguarding wealth

The big question that all savers and investors are asking during this economic period of low interest rates is: 'Where should I put my money?'

Banks no longer seem the secure bastions they once were, although savers should, if possible, keep a sense of perspective. In this economic climate it certainly pays to err on the side of caution, but this does not mean withdrawing funds from the banks completely.

Those who want to take a more cautious approach should ensure that no more than £85,000 is deposited in any one institution. This is the amount protected under the Financial Services Compensation Scheme (FSCS) for deposits, and is the total amount protected across any one banking group. To further complicate matters, some groups have kept a separate banking licence for each of their subsidiaries.

It is also worth noting that these limits apply to each individual person, not per account. So if you have a joint savings account, up to £170,000 is covered under the FSCS (for deposit accounts) if two names appear on the account.

Make sure you are not holding your money in accounts paying a low rate of interest, as your actual return after the effects of inflation could be negative. Don't neglect to utilise your cash Individual Savings Account allowance. By taking a longer-term view of at least five to ten years, you may wish to consider investing in equities. Much of this will depend on your attitude towards risk. Investing in equities has historically been a good long-term hedge against inflation, particularly when the shares delivered a growing dividend stream. It's worth remembering that dividend income can equate to a significant share of total returns.

In five years time, if you believe things will be better, then it probably makes sense not to get out of the stock market completely. Also, it is crucial to keep a disciplined approach to investing and not to forget your long-term goals. Now would be a prudent time to review your current holdings with the aim of ensuring that you have a balanced portfolio that matches your risk profile.

If you have regular savings plans, whether these are monthly contributions payable into ISAs or pensions, don't be unduly worried. Even during this economic period, putting money into the market at regular intervals means that you benefit from buying shares or units of funds at lower prices than when markets were higher. Effectively this may mean your savings plan or pension is better value for money today. And this should put you in a good position to benefit from future upturns.

The situation could be somewhat different if you are within five years of your retirement. You may not have sufficient time to see your investments recover in value. During this period in the run-up to your retirement, it may make sense to reduce your risk and stock market exposure. If you are considering a Self-Invested Personal Pensions although they offer greater flexibility, they are not suitable for everyone and are likely to incur higher charges.

The level of security attached to equity investments is not the same as for bank and building society accounts. Stocks and shares are not as secure as bank accounts and by seeking the potential to achieve capital growth you are increasing the chances of depleting your money.

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 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 this, 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 professional financial and tax advice should be sought 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 capital gains tax 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.

Dividends: 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.

Financial independence

Retirement for many today is rarely an all-or-nothing decision, where one day you are collecting a salary and the next your pension. You may have existing pension plans in place, like a company pension or personal pension plans. Perhaps you're just starting to save or approaching retirement.

Whatever you want to do, understanding how to build up enough retirement savings and how pensions work should help you achieve your future goals. Retirement may seem some way off, but in financial terms delaying the planning process could have a considerable affect on your future standard of living.

We can work with you to help select the most suitable form of retirement planning solutions applicable to your particular situation, and recommend what investment opportunities are right for you. We can also advise on what steps you should take to keep your pension plans up to date by creating a retirement plan that's tailor-made for you.

A GUIDE TO WEALTH MANAGEMENT

Pensions

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make. As part of the new 2011 retirement rules, from 6 April this year the pension annuity rules changed, meaning that UK pensioners are no longer forced to use personal pension funds to buy an annuity.

FREEDOM TO CHOOSE

Investors have the freedom to choose when and how they take their pension, with the compulsory annuity age of 75 withdrawn. Under the new annuity purchase rules, the compulsory element has ceased. From 6 April 2011, investors now have more flexibility about how they choose to use their retirement savings. You can still convert funds to an annuity if you wish, but you also have more options such as Income Drawdown and continued pension investment.

Individuals who are already in drawdown will not be immediately subject to the new requirements; however, transitional rules will apply. If this applies to you, you'll need to adopt the new rules either at the end of your current review period or earlier if you transfer to another drawdown plan.

Investors are able to use Income Drawdown or take no income at all from their pension for as long as they require. However, tax charges on any lump sum death payments will prevent this option being used to avoid Inheritance Tax (IHT). The rules regarding Alternatively Secured Pensions (ASPs) have been repealed; existing ASP plans will convert to Income Drawdown (previously known as Unsecured Pension, or USP) and are subject to the new rules.

FLEXIBLE DRAWDOWN

A new drawdown, called Flexible Drawdown, has been introduced. This allows those who meet certain criteria to take as much income as they want from their fund in retirement. It will normally only be available for those over 55 who can prove they are already receiving a secure pension income of over £20,000 a year when they first go into Flexible Drawdown. The secure income can be made up of State pension or from a pension scheme and does not need to be inflation proofed. Investment income does not count. There are restrictions that are designed to prevent people from taking all their Protected Rights or from using Flexible Drawdown while still building up pension benefits.

The previous drawdown option post 6 April 2011 has become known as Capped Income Drawdown. The maximum income is broadly equivalent to the income available from a single life, level annuity. This is a slight reduction on the previous maximum income allowed. There is no minimum income, even after age 75. The maximum amount is now reviewed every three years rather than the previous five years. Reviews after age 75 are carried out annually. Unlike the previous ASP, the income available after age 75 is based on your actual age rather than defaulting to age 75.

DEATH BENEFITS AND TAX CHARGES

The changes to death benefits and tax charges mean that if you die while your pension fund is in either form of drawdown, or after the age of 75, all of your remaining fund can be used to provide a taxable income for a spouse or dependant. Alternatively, it can be passed on to a beneficiary of your choice as a lump sum, subject to a 55 per cent tax charge (or nil charge if paid to a charity). Previously, a tax charge of up to 82 pr cent applied on lump sums paid after age 75, making it now far more attractive for people to pay into their pension and consider the IHT benefit of doing do so.

Previously, a pension fund which had been 'crystallised' by using Income Drawdown was subject to a tax charge of 35 per cent if the member died and any surviving spouse chose to take the fund as a lump sum. From 6 April this increased to 55 per cent, and applies to plans previously in force. It is also worth noting that, after age 75, this 55 per cent tax charge applies even to funds that have not been crystallised (from which no lump sum or income benefit has been taken).

ANNUITIES

Annuities themselves have not been changed; however, the minimum age at which you can buy an annuity is age 55. An annuity will still be the option of choice for a lot of retiring investors because, unlike Income Drawdown, it provides a secure income for life.

From 6 April the maximum pension contribution limit reduced to £50,000 (down from £255,000). However, investors benefit from tax relief at their highest marginal rate. The previous government's more complicated rules surrounding high earners and restricted tax relief have been discarded.

The coalition government has also brought back the carry forward rules, enabling anyone who wishes to roll up any unused contribution allowance to do so and take advantage in a future tax year. The £50,000 allowance can be carried forward for as many as three tax years. This roll-over relief came into full effect on 6 April 2011.

Although investors do not have to annuitise pension savings from 6 April this year and could, as an alternative, draw down income as cash lump sums, there are still rules to be followed to prevent investors running out of retirement income and becoming dependent on State benefits.

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make.

Self-Invested Personal Pensions

Following the introduction of Pension Simplification legislation in 2006, Self-Invested Personal Pension Plans (SIPPs) have become more accessible to more sophisticated investors who require greater control over their pension planning and want greater access to different investment markets. They also offer excellent tax planning solutions, and in these current difficult financial markets provide for the appropriate investor the maximum amount of flexibility when planning for retirement.

FREEDOM OF CHOICE

SIPPs are wrappers that provide individuals with more freedom of choice than other conventional personal pensions. They allow investors to choose their own investments or appoint an investment manager to look after their portfolio.

If you are a basic rate tax payer or pay no income tax at all you will receive 20 per cent from HMRC on up to 100 per cent of your earnings. However, if you are earning £60,000 per annum and make a contribution to your SIPP of £8,000 per annum, then HMRC will add another £2,000 making £10,000 in total. Then through your tax return you can claim another £2,000 in tax.

It's worth noting that if you make a contribution which takes your taxable earnings below the higher rate tax threshold then the tax relief will be less than 40 per cent. In effect you receive a blended rate which would be between 20 per cent and 40 per cent.

For very high earners from the 6 April 2011 income tax relief on pension contributions is restricted for those earning in excess of £150,000 per annum or more. It is tapered all the way down to 20 per cent when income exceeds £180,000 per annum.

RUNNING YOUR PENSION FUND

You have to appoint a trustee to oversee the operation of your SIPP, but having done this you can then effectively run your pension fund according to your investment requirements. The range of available investments will depend largely on your choice of SIPP provider – we can discuss this with you to ensure that you select the most appropriate scheme provider.

Ultimately it is down to the trustees of your pension plan to agree whether they are happy to accept your investment choices into the SIPP. The trustees are responsible and liable for ensuring that the investment choices fall within their remit. A fully fledged SIPP can accommodate a wide range of investments under its umbrella. However, you are likely to pay for the wider level of choice with higher charges.

At its most basic, a SIPP can contain straightforward investments such as cash savings or government bonds. You can also include unit and investment trust funds, and other more esoteric investments such as commercial properties and direct share investment. Other options are derivatives, traded endowment policies and shares in unquoted companies. So investments held within your SIPP wrapper can range from low to high risk, but crucially cannot include a second home or other residential property.

TRANSFERRING EXISTING PENSION MONEY

If you are considering transferring your existing pension money into a SIPP, there are a number of important considerations you should discuss with us first. These will include the potential charges involved, the length of time you have to retirement, your investment objectives and strategy, your existing pension plan guarantees and options (if applicable) and the effects on your money if you are transferring from with-profits funds.

If you are an expatriate living overseas or hoping to move overseas in the very near future, then it may also be worth considering a Qualifying Recognised Overseas Pension Scheme (QROPS). A QROPS is a pension scheme set up outside the UK that is regulated as a pension scheme in the country in which it was established, and it must be recognised for tax purposes (i.e. benefits in payment must be subject to taxation). The procedure for overseas transfers has been simplified significantly since April 2006. Now, as long as the overseas scheme is recognised by HM Revenue & Customs as an approved arrangement, the transfer can be processed in the same way as a transfer to a UK scheme.

There is in fact no financial limit on the amount that you can contribute to your SIPP, although there is a maximum amount on which you will be able to claim tax relief in any one tax year and a lifetime allowance restricting the total fund size. Under the rules which came into force from April 2006, investors now have much more freedom to invest money in their SIPP.

CONTRIBUTION LIMITS

For the current tax year 2011/12 the level of contributions on which personal tax relief will be granted is up to 100 per cent of UK earnings (from employment or self employment) subject to an overall limit of £50,000, known as the annual allowance. Employer contributions are also subject to the annual allowance. Contributions in excess of the annual allowance are subject to a tax charge levied on the scheme member at their highest marginal rate.

Despite the new rules significantly reducing the annual allowance from £255,000 (2010/11) to £50,000 for the tax year 2011/12, this is partly compensated by the introduction of the ability to 'carry forward' unused allowance from the previous three tax years. The allowance figure used is £50,000 per tax year.

ADMINISTRATION MATTERS

There are charges associated with SIPPs, these include, the set-up fee and the annual administration fee. A low-cost SIPP with a limited range of options, such as shares, funds and cash, might not charge a set-up fee and only a modest, if any, annual fee.

A full SIPP will usually charge a set-up fee and then an annual fee. The charges are usually a flat rate, so they benefit investors with larger pension funds. There will, in addition to annual charges, be transaction charges on matters such as dealing in shares and switching investments around.

If appropriate, you are also permitted to consolidate several different pensions under the one SIPP wrapper by transferring a series of separate schemes into your SIPP. However, it is important to ascertain if there are any valuable benefits in your existing schemes that would be lost on such a transfer. The actual transfer costs also have to be taken into consideration, if applicable. SIPPS are not appropriate for everybody and there are alternative methods of saving for retirement. Transferring your pension will not guarantee greater benefits in retirement.

Small Self-Administered Schemes

A Small Self-Administered Scheme (SSAS) is an occupational pension scheme that does not have the involvement of a life assurance company but where the assets are invested and managed by the scheme trustees an internal investment manager or an external investment manager. SSASs historically have proven popular because of the investment powers and greater control they conferred on the members.

Consequently HM Revenue & Customs has imposed tighter control on their operation than on other types of scheme. Since April 6, 2006 following the implementation of tax simplification measures most if not all of the special features of SSASs have been removed.

A SSAS scheme can accommodate up to eleven members. This is a trust-based scheme, in most cases, created at the request of an employer for directors and/or key personnel (although it does not have to be an employer). As such this is an occupational pension arrangement.

It is usual for all members to also be scheme trustees. Whilst not a requirement, in most cases 'professional' administrators and/or trustees can be appointed to assist the member trustees in the running of the scheme.

A SSAS can make a loan to a 'sponsoring employer' subject to stringent conditions regarding the loan term, amount, repayments, interest rates and security.

A SSAS is restricted to investing no more than 5 per cent of the scheme assets in the shares of any one sponsoring employer.

SASs historically have proven popular because of the investment powers and greater control they conferred on the members.

Annuities

Legislation introduced in the Finance Bill 2011 removed pension tax rules that previously created an obligation for members of registered pension schemes to secure an income, usually by buying an annuity, by age 75 and took effect from 6 April 2011.

The size of your pension fund, your age, your personal situation, possible health problems and economic circumstances will all influence the kind of annuity rates you can obtain, and your financial needs will also determine the payment options most beneficial for you.

Buying the first annuity offered to you by your pension provider, could potentially mean you lose out on a significant amount of future pension income. You should always obtain professional advice to ensure you receive the most competitive annuity rate, tailored to your individual needs.

ANNUITY OPTIONS

Joint life annuity – If you die before your dependant or spouse, your annuity income will be passed on to the survivor.

Level annuity – A level annuity means that you will receive the same amount of annuity income every payment period.

Escalating annuity – With an escalating annuity, your retirement income will rise every payment period. Your starting income is lower, but the regular increase ensures that your income doesn't lose its market value.

Investment-linked annuity – With profits annuities and variable annuities offer higher potential income levels, but with added risks. It is especially important to seek professional financial advice when choosing these less standard annuities.

Enhanced life annuity – Serious and even minor health problems could mean that you receive a better annuity rate than standard annuity rates. Even if you are a smoker or only have minor health issues, you might be able to get an enhanced life annuity. Not all annuity providers offer the same options and rates, so it is crucial to research all your options.

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, 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. When you retire, this money can be used to buy an annuity which pays an income.

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

Locating a lost pension

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

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

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

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

- The full name and address of your employer who ran the occupational pension scheme you are trying to trace. Did your employer change names, or was it part of a larger group of companies?
- The type of pension scheme you belonged to. For example was it an occupational pension scheme, personal pension scheme or a group personal pension scheme?

WHEN DID YOU BELONG TO THIS PENSION SCHEME?

For occupational pension schemes:

- Did your employer trade under a different name?
- What type of business did your employer run?
- Did your employer change address at any time?

For personal pension schemes:

- What was the name of your personal pension scheme?
- What address was it run from?
- What was the name of the insurance company involved with your personal pension scheme?

Planning your legacy and passing on your wealth is another area that requires early planning.

Wealth protection

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

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

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

Solutions to protect your assets and offer your family lasting benefits

Having the correct protection strategy in place will enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. But choosing the right options can be difficult without obtaining professional advice to ensure you protect your family from financial hardship.

We can ensure that you find the right solutions to protect your assets and offer your family lasting benefits. It is essential that you are able to make an informed decision about the most suitable sum assured, premium, terms and payment provisions.

There are potentially three main scenarios that could put your family's financial security at risk: the death of you or your partner; you or your partner suffering from a critical condition or illness; and you or your partner being out of work due to an illness or redundancy.

We can help you calculate how much cover you may require, whether this is for capital or for income, or both. You may find that a lump sum of capital is needed to repay debt such as a mortgage or perhaps cover the cost of moving house. In addition, income may also be required to help cover your normal living expenses.

Think about how long you may require the cover and what you already have in place. We can help you review your existing policies and also take into consideration what your employer provides in the way of life insurance and sickness benefits.

PROTECTING YOUR FAMILY FROM FINANCIAL HARDSHIP

WHOLE-OF-LIFE ASSURANCE

Provides a guaranteed lump sum paid to your estate in the event of your premature death. To avoid Inheritance Tax and probate delays, policies should be set up and written under an appropriate trust.

TERM ASSURANCE

For capital needs, term insurance is one of the simplest and cheapest forms of life insurance. If you die during the term of a policy, a fixed amount of life insurance is paid, normally tax-free. A mortgage protection policy is a type of term insurance used to cover a repayment mortgage, with the death benefit reducing as the balance of your mortgage reduces.

FAMILY INCOME BENEFIT

For income needs, family income benefit insurance is a worthwhile consideration. This can provide a monthly, quarterly or annual income, which under current rules is tax-free.

CRITICAL ILLNESS

To protect you if you or your partner should suffer from a specified critical condition or illness. Critical illness insurance normally pays benefits tax-free if you suffer from one or more illnesses, diseases or conditions specified in the policy terms. Without obtaining professional advice these can vary tremendously between providers, making it difficult to assess your precise needs. If you combine critical illness insurance with life insurance, claims are paid whether you die or suffer the critical illness.

INCOME PROTECTION INSURANCE

Income protection insurance is designed to pay you a replacement income should you be unable to work due to accident, injury or illness. A replacement percentage of your income is paid until you return to work, retire or die. Rates vary according to the dangers associated with your occupation, age, state of health and gender.

Protection planning

With so many different protection options available, making the right decision to protect your personal and financial situation can seem overwhelming. There is a plethora of protection solutions which could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed. We can make sure that you are able to take the right decisions to deliver peace of mind for you and your family in the event of death, if you are too ill to work or if you are diagnosed with a critical illness.

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

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

LIFE ASSURANCE OPTIONS

- Whole-of-life assurance plans can be used to ensure that a guaranteed lump sum is paid to your estate in the event of your premature death. To avoid Inheritance Tax and probate delays, policies should be set up under an appropriate trust.
- Level term plans provide a lump sum for your beneficiaries in the event of your death over a specified term.
- Family income benefit plans give a replacement income for beneficiaries on your premature death.
- Decreasing term protection plans pay out a lump sum in the event of your death to cover a reducing liability for a fixed period, such as a repayment mortgage.

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

Income Protection Insurance (IPI) formerly known as permanent health insurance would make up a percentage of your lost income caused by an illness, accident or disability. Rates vary according to the dangers associated with your occupation, age, state of health and gender but IPI is particularly important if you are self employed or if you do not have an employer that would continue to pay your salary if you were unable to work.

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

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

Of course, all these protection options also apply to your spouse and to those who are in civil partnerships.

Long-term care

Long-term care provision in the United Kingdom has been the subject of much debate and analysis over the past decade, yet the issue of how to fund the cost of that care for future generations remains unresolved. Much of the debate has revolved around how the State should address the problem.

As you get older, you might develop health problems that could make it difficult to cope with everyday tasks. So you may need help to stay in your own home or have to move into a care home.

The State may provide some help towards the costs of this care depending on your circumstances, but there are also other ways to help you cover the cost of care, including using savings and investments. A place in a nursing home costs an average of £36,000 per year but people with assets of over £23,250 currently receive no assistance from the government. An estimated 20,000 people a year sell their homes to fund moving into a residential or nursing home.

The cost of care in old age has risen to an average of £50,300, according to research for a government inquiry into funding reform. Almost one in five people who need residential care after the age of 65 face a bill of more than £100,000, the study found. One in 100 incur costs in excess of £300,000.

The research shows the need for a system that avoids people with property and savings having to meet all the costs themselves.

Using data covering more than 11,000 people who were supported in Bupa care homes between 2008 and 2010, the study concludes that the average length of stay was 832 days. However, there was wide variation. One in two people die within 462 days, but more than one in four remain in the home for longer than three years.

Researchers from the personal social services research unit at the University of Kent and the London School of Economics conclude that at age 65 everyone faces care and accommodation costs averaging £50,300. – irrespective of whether they eventually do enter residential care.

Women, who have longer life expectancy, face average costs of £64,800. Men face an average £34,300.

Long-term care refers to care you need for the foreseeable future, maybe as a result of permanent conditions such as arthritis, a stroke or dementia. It could mean help with activities such as washing, dressing or eating, in your own home or in a care home (residential or nursing).

If you don’t qualify for financial help from the local authority, you will normally have to pay towards the cost of care out of your own income and savings – which could result in you eventually having to sell your own home to meet the costs.

There are many different ways to help you pay for long-term care.

LONG-TERM CARE INSURANCE

Long-term care insurance is one way of insuring yourself against the cost of long-term care.

There are basically two types of long-term care insurance (LTCI):

- **Immediate care LTCI -** you can buy this when you actually need care; and
- **Pre-funded LTCI -** you can buy this in advance, in case you need care in the future.

IMMEDIATE CARE LONG-TERM CARE INSURANCE

This can be purchased when you have been medically assessed as needing care, which can be at any age.

You buy an immediate care plan with a lump sum. This pays out a regular income for the rest of your life, which is used to pay for your care.

The amount you pay will vary depending on:

- The amount of income you want;
- Whether you want the income to increase, for example, with inflation;
- Your age and sex; and
- The state of your health.

You’ll be assessed medically to determine how much you must pay for your chosen level of income.

PRE-FUNDED LONG-TERM CARE INSURANCE

You can buy this in advance, in case you need care in the future. You can buy it at any age, but some have a minimum age for receiving the plan benefits of 40 or 50.

You take out an insurance policy that will pay out a regular sum if you need care. It pays out if you are no longer able to perform a number of activities of daily living (such as washing, dressing or feeding yourself) without help, or if you become mentally incapacitated. The money it pays out is tax-free.

Some existing policies may be linked to an investment bond, which is intended to fund the premiums for the insurance policy. These policies involve more investment risk and, in some cases, can use up your capital.

You typically pay either regular monthly premiums or a single lump sum premium. In either case, the insurance company usually reviews the plan, say every five years, and the premiums may then rise, even if you’ve bought a single premium policy. Premiums depend on your age, sex and the amount of cover you choose.



Inheritance Tax planning

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

IHT is currently paid on amounts above £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2011/12 tax year, at a rate of 40 per cent. If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the IHT threshold, tax will be due on the balance at 40 per cent.

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

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

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

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

Money put into a 'bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to prevent grandchildren, for example, from having access to it until they are 18.

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the threshold are not subject to tax but amounts over this are taxed at 20 per cent with a further 20 per cent payable if the person making the gift dies within seven years.

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

Any gifts between husbands and wives, or registered civil partners, are exempt from IHT whether they were made while both partners were still alive or left to the survivor on the death of the first. Tax will be due eventually when the surviving spouse or civil partner dies if the value of their estate is more than the combined tax threshold, currently £650,000.

If gifts are made that affect the liability to IHT and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift.

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

TAX SAVING INCENTIVES FOR SUBSTANTIAL CHARITABLE LEGACIES

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.

UK Trusts, passing assets to beneficiaries planning

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

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

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

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

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

WHAT IS A TRUST?

A trust is an obligation binding a person called a trustee to deal with property in a particular way for the benefit of one or more 'beneficiaries'.

SETTLOR

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

TRUSTEE

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

BENEFICIARY

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

TRUST PROPERTY

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

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

The main types of private UK trust

BARE TRUST

In a bare trust the property is held in the trustee's name but the beneficiary can take actual possession of both the income and trust property whenever they want. The beneficiaries are named and cannot be changed.

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

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

LIFE INTEREST OR INTEREST IN POSSESSION TRUST

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

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

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

With a life interest trust, the trustees often have a 'power of appointment', which means they can appoint capital to the beneficiaries (who can be from within a widely defined class, such as the settlor's extended family) when they see fit.

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

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

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

There is also an exit charge on any distribution of trust assets between each ten-year anniversary.

Published by **Goldmine Media Limited**, Prudence Place, Luton, Bedfordshire, LU2 9PE

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