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Creating, Managing and Protecting your wealth

Smoothing out your portfolio's returns

How to increase the long-term value of your investments

SIPPing into retirement

Are you in control of your investments?

Emerging views

The lure of greater growth and younger economies

Fine tuning your portfolio

Reduce risk, hedge inflation and diversify your overall investment strategy

Do your retirement numbers add up?

Saving to secure the kind of pension you would like to live on

STAVING OFF A SOVEREIGN DEFAULT

The need to get to grips with the current crisis of indebtedness

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Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

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Editorial

Welcome to the latest issue of our personal finance and investment magazine. Inside this issue we provide you with quality analysis and information on a wide range of topics to help you make your financial planning decisions with confidence.

Before you can start planning for your retirement, you need to understand how the money you've built up in your pension fund will be used to provide you with an income when you retire. On page 05 we look at annuities – one of the options you could choose to invest most of your pension in, and one that will pay you a regular income throughout your retirement years. In the UK more than £10bn is invested in annuities every year.

There are numerous ways of saving for retirement, including various types of pensions. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision. It is usually also the case that you may be able to contribute to more than one pension – for example, if appropriate, you could contribute to a Self-Invested Personal Pension (SIPP) as well as to your company pension scheme. Read the full article on page 04 .

In the light of recent market volatility it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. One way for investors to achieve some peace of mind is through 'pound-cost averaging', a simple, time-tested method for controlling risk over time. On page 06 we look at how pound-cost averaging enables investors to take advantage of stock market corrections and how, in this way, you could increase the long-term value of your investments.

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

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

Do your retirement numbers add up?

Saving to secure the kind of pension you would like to live on

How much money do you need to save to secure the kind of pension you would like to live on when you retire? It's a question that concerns everyone saving for their retirement.

So it's essential to make sure your numbers add up, especially as older people have seen their cost of living rise by almost a fifth in four years, according to calculations from Saga. Working with the Centre for Economics and Business Research, Saga estimated that the cumulative inflation rate on the RPI gauge has been 13.9 per cent for the general population over the past four years. But people aged between 65 and 74 have suffered a rise of 19.1 per cent.

DAUNTING PROSPECT

Add to this the daunting prospect that one in three workers in the UK does not currently have a private or company pension, it means that around 15 million people will have to rely on the State pension or personal savings when they retire, according to research of 1,600 adults by Prudential.

This makes the question 'How much money do I need to save to secure the kind of pension I would like to live on when I retire?' even more important. Much will depend on when you plan to retire. Some people expect to have to work until they are 65, some with a good pension may aim for 60 and others plan for an early retirement during their 50s.

NEW-FOUND FREEDOM

Many of us may dream of long, easy days in retirement, enjoying our new-found freedom. But the illusion can too easily be shattered if we do not have enough income to live on. Few of us may realise just how much we could need in retirement to achieve a comfortable standard of living and how long it will have to last.

As more people are living longer today, so our pensions have to last longer during our retirement years. Realistically a pension may have to provide us with an income for over two decades, if not longer, after our salary stops.

FACTORS TO CONSIDER

There are several factors to consider, such as your current age, how many years left before your retirement, how you plan on spending your retirement years and how much you can afford to save.

When you retire, the chances are that you may not need as much to live on as you do when you are working. As an estimate, a figure of between two-thirds and a half of your present income may be sufficient to maintain a good standard of living. ■

THE KEY TO SAVING FOR YOUR LATER LIFE IS TO START EARLY. MAKING PENSION CONTRIBUTIONS IS A VITAL PART OF SECURING A COMFORTABLE RETIREMENT. TO REVIEW YOUR CURRENT RETIREMENT PROVISION AND TO ASSESS WHETHER YOUR NUMBERS ADD UP, PLEASE CONTACT US.

19.1%

Percentage of people aged between 65 and 74 that have suffered a cumulative inflation rate rise over the past four years

SIPPing into retirement

Are you in control of your investments?

There are numerous ways of saving for retirement, including various types of pensions. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision. It is usually also the case that you may be able to contribute to more than one pension – for example, if appropriate, you could contribute to a Self-Invested Personal Pension (SIPP) as well as to your company pension scheme.

PENSION WRAPPER

A SIPP is essentially a pension wrapper, capable of holding investments and providing the same tax advantages as other personal pension plans, that allows you to take a more active involvement in your retirement planning. SIPPs are not appropriate for small investment sums.

You can generally choose from a number of different investments, unlike some other traditional pension schemes that can be more restrictive, and this can give you greater choice over where your money is invested.

It may also be possible to transfer-in other pensions into your SIPP, which could allow you to consolidate and bring together your retirement savings. This may make it simpler for you to manage your investment portfolio and perhaps make regular investment reviews easier.

TAX RELIEF

SIPP investors also receive tax relief on their contributions. So you could potentially benefit from between 20 per cent to 50 per cent tax relief depending upon your own circumstances.

Like some investments in other pensions, any returns from investments within a SIPP are free of income and capital gains tax. However, unlike dividend payments received outside a SIPP, there is no 10 per cent tax credit applied to dividend payments within a SIPP.

TAX ADVANTAGES

This is a long-term savings vehicle with certain tax advantages, but you should be prepared to commit to having your money tied up until at least age 55. There are various options for taking benefits from your SIPP that you should be aware of. You can receive up to 25 per cent of the pension fund value as a tax-free lump sum (subject to certain limits); the remaining benefits can be taken gradually as an income or as additional lump sums, both of which are subject to your tax rate at that time, although this is potentially a lower tax rate than the one that you currently pay, depending on your circumstances at the time.

COMPOUND GROWTH

UK pension fund investments grow free of income tax and capital gains tax, which allows funds to accumulate faster than taxed alternatives and benefit considerably over the longer term due to the effects of compounding of growth.

Where tax has been deducted at source on income within a pension fund – such as rents, coupons and interest – this is reclaimed by the pension provider and the tax credited back into the pension fund.

NOT SUBJECT TO TAX DECLARATION

Assets held within the pension fund that carry no tax at source, such as offshore investments and government gilts, are not subject to tax declaration or payments.

25%

The maximum percentage of your pension fund value you can receive tax free

If you are an experienced investor, then managing your own pension investments may be for you. However, you need to be comfortable that you have the skill and experience to make your own investment decisions and have sufficient time to monitor investment performance. So you can either take control of your investments or pay someone to do it for you. If you pay, your costs will increase for this facility.

MANAGING YOUR INVESTMENTS

There are a number of considerations you need to be aware of, for example, you cannot draw on a SIPP pension before age 55 and there are usually additional costs involved when investing. You'll also need to be mindful of the fact that you may need to spend time managing your investments. Where an investment is made in commercial property, there could be periods without any rental income and in some cases the pension fund may need to sell on the property when the market is not at its strongest. SIPPs also charge higher costs than a stakeholder and you may pay two sets of management fees for the wrapper and the underlying investments. ■

IF YOU ARE AN INVESTOR WITH THE EXPERTISE TO MAKE YOUR OWN INVESTMENT DECISIONS, A SIPP MAY PROVIDE YOU WITH THE INVESTMENT CHOICE TO ENABLE YOU TO TAKE GREATER CONTROL OVER YOUR RETIREMENT PLANNING. IF YOU ARE UNSURE, IT'S ESSENTIAL TO SEEK PROFESSIONAL FINANCIAL ADVICE. TO DISCUSS YOUR RETIREMENT PLANNING NEEDS, PLEASE CONTACT US.

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. 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.

Time to go annuity shopping?

Don't make your final decision until you've received different comparisons

Before you can start planning your retirement, you need to understand how the money you've built up in your pension will be used to provide you with an income when you retire. One of the options you could choose is to invest most of your pension in an annuity, which pays you a regular income throughout your retirement years.

£10bn
The amount invested in annuities every year in the UK

You purchase an annuity using the lump sum from your pension or, perhaps, some savings, which provides you with a guaranteed income for the rest of your life. The size of the income you receive, however, usually depends on the size of your pension fund, your age, your gender and your health. In the UK more than £10bn is invested in annuities every year.

ANNUITY QUOTATION

When you retire, your pension fund provider will inform you of your pension fund total and offer you an annuity quotation based on the size of your fund. In general, most people purchase an annuity by the time they reach age 75.

Your choice of annuity will depend largely on your financial circumstances, the value of your pension(s), your retirement expectations and, possibly, on your health or the health of your dependants.

You can choose whether you would prefer a level annuity or an escalating annuity. Level annuities pay you a fixed level of income each year, while an escalating annuity increases each year in line with inflation.

The income generated from an escalating annuity is usually significantly lower in the first few years than you would expect to receive from a level annuity.

POOR HEALTH

If you suffer from poor health, you may qualify for an enhanced annuity or an impaired life annuity. These usually pay a higher income amount if your health problems (such as high blood pressure, kidney problems or diabetes) could potentially reduce your lifespan. You might also be able to receive an 'enhanced annuity' if you are a smoker or diagnosed as obese.

SHOPPING AROUND

You can purchase your annuity from any provider and it certainly doesn't have to be with the company you had your pension plan with. The amount of income you receive from your annuity can vary between different insurance companies, so it's essential to receive comparisons before making your final decision.

'OPEN MARKET' OPTION

Remember that you do not have to accept your pension fund provider's annuity offer and could find much better value elsewhere. Pension fund providers are also now legally obliged to inform you of your rights to choose an annuity. You can decide to take the 'open market' option providing that you haven't already taken any benefits from your pension or agreed an existing annuity with your pension provider.

Before you take out your annuity, you could also opt to withdraw a tax-free lump sum – up to 25 per cent of the total value of your pension – known as a Pension Commencement Lump Sum.

BEST COURSE OF ACTION

At times of falling annuity rates it might be tempting to hold off buying an annuity, perhaps while you wait for rates to increase. But this may not necessarily be the best course of action. If you decide to delay your purchase, rates could fall even further. In addition, every month an annuity is deferred is a month without income and this lost income may not be recouped in the future. ■

IT'S IMPORTANT TO REMEMBER THAT ONCE YOU HAVE AGREED TO PURCHASE YOUR ANNUITY IN EXCHANGE FOR A PENSION SUM, YOU CANNOT CHANGE THE ANNUITY AT A LATER DATE OR TRY TO SURRENDER IT FOR CASH. THEREFORE, YOU SHOULD SEEK PROFESSIONAL ADVICE TO ENSURE YOU FIND THE BEST POSSIBLE ANNUITY AVAILABLE. THIS IS LIKELY TO BE ONE OF THE MOST IMPORTANT FINANCIAL DECISIONS YOU'LL EVER MAKE. WE CAN HELP YOU WORK OUT WHICH ANNUITY OPTION IS BEST FOR YOUR OWN PERSONAL CIRCUMSTANCES – PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

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Staving off a sovereign default

The need to get to grips with the current crisis of indebtedness

The turbulence that has gripped financial markets is a response to the perception that politicians in the Eurozone and the US have been slow to face up to issues of indebtedness.

If Interest rates in the UK and the Eurozone remain low for years to come, the pound and euro currencies would then be an unattractive place for investors to deposit their cash.

CONTINGENCY PLANS

The direct exposure of UK banks to Greece is fairly limited, but Bank of England Governor, Mervyn King, revealed in his response to MPs' questions in June that the Bank was working with the Treasury to draw up contingency plans for a Greek default.

The European Central Bank together with the 'eurosystem' of 17 national central banks can create money that is used to buy government debts to stave off a sovereign default. There is therefore no theoretical limit to how much can be bought up.

The sooner Europe's political and financial leaders get to grips with the current crisis, the sooner the markets can try and return to some sort of normality.

US SOVEREIGN DEBT

Across the pond, the recent downgrading of US sovereign debt by Standard and Poor's (S&P) is an important symbolic moment in the shift of economic power from mature industrialised nations to emerging economies.

The US will only regain its AAA status once politicians have demonstrated that they can implement the necessary tax increases and/or spending cuts that will eventually get the ratio of outstanding debt to GDP onto a downward trajectory.

Private investors are likely to keep their investments as simple as possible via direct investment and collective vehicles such as funds and investment companies, while those with direct exposure to higher risk assets, which may fall in value in the short to medium term, at least have the capacity to grow again in the future. ■

Smoothing out your portfolio's returns

How to increase the long-term value of your investments

In the light of recent market volatility, it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. One way for investors to achieve some peace of mind is through 'pound-cost averaging', a simple, time-tested method for controlling risk over time.

Pound-cost averaging enables investors to take advantage of stock market corrections and, by using the theory, you could increase the long-term value of your investments. There are, however, no guarantees that the return will be greater than a lump sum investment and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

REGULAR INTERVALS

The basic idea behind pound-cost averaging is straightforward; the term simply refers to investing money in equal amounts at regular intervals. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking £50,000 and investing £5,000 each month for 10 months.

Alternatively, you could pound-cost average on an open-ended basis by investing, say, £5,000 every month. This principle means that you invest no matter what the market is doing. Pound-cost averaging can also help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

MARKET TIMING

Investment professionals often say that the secret of good portfolio management is a simple one – market timing. Namely, to buy more on the days when the market goes down, and to sell on the days when the market rises.

As an individual investor, you may find it more difficult to make money through market timing. But you could take advantage of market down days if you save regularly, by taking advantage of pound-cost averaging.

SAVINGS HABIT

Regular savings and investment schemes can be an effective way to benefit from pound-cost averaging and they instil a savings habit by committing you to making regular monthly contributions. They are especially useful for small investors who want to put away a little each month.

Investors with an established portfolio might also use this type of savings scheme to build exposure a little at a time to higher-risk areas of a particular market.

The same strategy can be used by lump sum investors too. Most fund management companies will give you the option of drip-feeding your lump sum investment into funds in regular amounts. By effectively 'spreading' your investment by making smaller contributions on a regular basis, you could help to average out the price you pay for market volatility.

Any costs involved in making the regular investments will reduce the benefits of pound-cost averaging (depending on the size of the charge relative to the size of the investment, and the frequency of investing). ■

Investing regular amounts could have the advantage of averaging out the cost of your total investment over time and may take away the worry of timing your purchases correctly. Regular investing may be ideal for people starting out or who want to take their first steps towards building a portfolio of funds for their long-term future. To find out more about the different options available to you, please contact us.

You've protected your most valuable assets.

But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Boosting your income

How to access a broad range of income-producing funds

Generating an income from investments is usually an important requirement for many people who are retired or approaching retirement, those who need to supplement their salary or even those with a relatively short investment timeframe.

There are thousands of income-producing funds to choose from and they are divided into different types, or sectors. The four main types of income fund are:

Money Market Funds – these pay interest and aim to protect the value of your money.
Bond (Fixed Income) Funds – this type of fund pays a higher rate of interest than cash deposits but there is some risk that the value of your original investment will fall.
Equity Income Funds – the income is produced from dividends paid to shareholders. In return for some risk to your capital, you may get a more regular income than you would from cash, and the income, as well as your capital, may increase over time.
Property Funds – these funds pay income from rents but the value of your investment can fall as well as rise.

In addition, there are mixed asset funds, which invest your money in both bonds and equities.

INTEREST FROM CASH OR MONEY MARKET FUNDS

This income varies in line with the interest rate set by the Bank of England. The fund's investment manager will aim to get the best rate available, helped by that fact that, with large sums to deposit, funds can often achieve better rates than individual investors.

The capital amount you originally invested in cash is unlikely to go down (subject to the limits for each deposit under the Financial Services Compensation Scheme). If the interest rate is lower than the rate of inflation, however, the real spending value of your investment is likely to fall.

FIXED INTEREST FROM BONDS

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

CREDIT RATINGS AFFECT THE MARKET PRICE

Many factors can affect the market price of bonds. The biggest fear is that the issuer/borrower will not be able to pay its lenders the interest and ultimately be unable to pay back the loan. Every bond is given a credit rating. This gives investors an indication of how likely the borrower is to pay the interest and to repay the loan. Typically, the lower the credit rating, the higher the income investors can expect to receive in return for the additional risk.

A more general concern is inflation, which could considerably erode the real value of the interest paid by bonds. Typically, bond prices rise if interest rates are expected to fall, and fall if interest rates go up.

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

DIVIDENDS FROM SHARES AND EQUITY INCOME FUNDS

Many companies distribute part of their profits each year to their shareholders in the form of dividends. Companies usually seek to keep their dividend distributions at a similar level to the previous year, or increase them if profit levels are high enough to warrant it. If companies do not make a profit then no dividends will be paid and there is no guarantee.

RENTAL INCOME FROM PROPERTY AND PROPERTY FUNDS

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

SELECTING FUNDS

There are a number of key points you should consider when selecting funds. Initially, you need to balance your need for a regular income with the risks. The income from a fund may be higher and more stable than the interest you receive from cash deposited in a bank or building society savings account but it can still go up and down. There may be some risk to the capital value of your investment.

If a regular income is important to you and you do not need to cash in your investment for now, you may be prepared to take this risk.

Where funds are invested in real estate/ commercial property, you may not be able to switch or cash in your investment when you want because assets in the fund may not always be readily saleable. If this is the case your request to switch or cash in your shares may be deferred

4
The number of main types of income fund

ANNUALLY
All income funds must pay income at least annually

or suspended. You should also bear in mind that the valuation of real estate is generally a matter of valuers' opinion rather than fact.

SECTORS FOR INCOME INVESTORS

Income funds of the same type are grouped in 'Investment Management Association (IMA) sectors'. The main IMA sectors for income investors are: Money Market; Fixed Income (including UK Gilts, UK index-linked Gilts, Corporate Bond, Strategic Bond, Global Bond and High Yield); Equity Income; Mixed Asset (i.e.UK Equity and Bond) and Property.

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

DISTRIBUTION POLICY TO SUIT YOUR INCOME NEEDS

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

If you need cash regularly, you may consider selecting income units/shares. The income generated in a fund is paid out in cash to investors who own income units. If you choose the alternative – accumulation units/shares – your share of the income is automatically reinvested back into the fund. ■

WE ARE ABLE TO OFFER YOU ACCESS TO A BROAD RANGE OF INCOME-PRODUCING PRODUCTS. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

The value of these 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.

Fine-tuning your portfolio

Reduce risk, hedge inflation and diversify your overall investment strategy

Commodities have received much media coverage over the past year, with prices rising as other asset classes falter. Investing in commodities within your portfolio may not only create exposure to different investment products, but can also help reduce risk, hedge inflation and diversify your overall investing strategy.

Commodities, like much else, are subject to the laws of supply and demand. When demand rises, as has been the case with gold over the past few years, the price rises. Stock market volatility and rising UK inflation have attracted a diverse mix of investors to this sector.

In October the Monetary Policy Committee (MPC) announced £75bn of new quantitative easing (QE) measures to help boost the faltering economy and free up the money markets. The stock market reacted positively to this news with mining and commodity stocks benefiting from the QE which filtered through to asset prices.

SAFE HAVENS PRESERVE WEALTH

Commodities are physical assets. They include oil and gas, metals such as gold and silver, and so-called 'soft' commodities such as wheat, sugar and cocoa beans. They are often called 'safe havens' as they preserve wealth in a physical way.

The sector has little correlation with stock markets and currencies, which means if equity markets fall, the price of commodities won't necessarily fall.

They tend to behave differently to conventional asset classes and can therefore be very useful for the purposes of diversification within an investment portfolio.

VIABLE WAY TO ACCESS COMMODITIES

An investment fund that enables investors to access the sector and spread risk, with investors investing in a variety of commodities, is a passive fund incorporating Exchange Traded Funds (ETFs).

ETFs provide appropriate investors with the chance of buying whole indices in the same way as buying a share on the London Stock Exchange. In addition, they are eligible for inclusion within Individual Savings Accounts and do not attract any stamp duty.

TRACKING THE FUTURE PRICE

Equity-based commodity ETFs invest in shares of commodity companies through an index such as the FTSE 100, whereas Exchange Traded Commodities (ETCs) are instruments that track the price of the commodity, or a basket of commodities.

They can either be physically backed by the commodity itself or use swaps with other financial institutions to provide the exposure.

Should the price of the commodity fall, so will the investment, as the ETF will simply track its performance. ETCs also allow investors to 'short' or 'leverage' their investment. Investors should be careful here, as these strategies involve high risk. Although there are potential gains to be made, there could be significant potential losses too.

With the incredible rise of emerging economies forecast over the coming years, the commodity markets may provide appropriate investors with a range of investment opportunities to enable them to grow their wealth over the longer term. ■

Investments in commodities are by their nature generally considered to be higher risk. The value of these 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.

FTSE100
One index through which ETFs invest in shares of commodity companies

£75bn
The amount of quantitative easing measures announced by the Monetary Policy Committee in October

Tax matters

How much of your hard-earned money will the taxman get his hands on?

Inheritance Tax (IHT) in the UK may be one of life's unpleasant facts but IHT planning and quality advice could help you pay less tax on your estate.

For the 2011/12 tax year, no IHT is charged on the value of your estate up to £325,000. This is known as the 'nil rate band'. Everything above this is taxed at 40 per cent.

If an individual's IHT nil rate band is not used up on their death, the unused proportion can be transferred to their surviving spouse or civil partner.

Assets passed between spouses or registered civil partners are exempt from IHT (assuming the spouse or partner is domiciled in the UK), regardless of the worth of the assets and how soon you die after acquiring them.

REDUCING YOUR FAMILY'S TAX BILL

Any amount of money you give away outright will not be counted for IHT if you survive for seven years after making the gift. If you die within this period, the amount of the gift will be included within your estate. Taper relief may apply in these circumstances and can reduce the amount of IHT due. ■

THERE ARE A NUMBER OF OPTIONS YOU COULD UTILISE TO REDUCE YOUR FAMILY'S IHT BILL. WHY NOT INVESTIGATE THE WEALTH PROTECTION SERVICES WE OFFER? IHT IS A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING AND YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE. WE CAN ASSESS YOUR INDIVIDUAL CIRCUMSTANCES AND HELP YOU FIND THE RIGHT SOLUTION(S) TO MEET YOUR REQUIREMENTS.

Tax laws are subject to change, possibly retrospectively. The rules for individuals who are not UK resident or not UK domiciled are different and therefore tax and local laws should be considered.

HOW MUCH OF YOUR ESTATE COULD GO TO THE TAXMAN IN THE 2011/12 TAX YEAR?

Value of your estate	Your IHT bill payable
Less than £325,000	£0
£400,000	£30,000
£500,000	£70,000
£600,000	£110,000
£700,000	£150,000
£800,000	£190,000
£900,000	£230,000
£1,000,000	£270,000

Making the most of your pension contributions

Are you claiming higher rate pensions tax relief?

If you pay higher rate tax you will not receive tax relief automatically on your personal pension contributions unless you claim it. This means that someone earning more than £42,475 in the current financial year could potentially be losing a fifth of the value of their pension if they are not actively claiming back higher rate tax relief on their contributions.

CLAIMING TAX BACK

If you pay income tax on your earnings before any personal pension contributions, your pension provider claims tax back from the government at the basic rate of 20 per cent. In practice, this means that for every £80 you pay into your personal pension, you end up with £100 invested in your pension fund.

If you are a higher rate tax payer paying 40 per cent, you may able to claim an additional tax relief. Depending on how much you earn over the higher rate tax band, any additional tax relief could range from between a further 1 per cent up to a maximum of 20 per cent.

ADDITIONAL RATE TAX PAYERS

From 6 April, if you are an additional rate tax payer and pay 50 per cent, you may also be able to claim additional tax relief at your highest rate. Depending on how much you earn over the higher rate tax band and your level of contribution, any additional rate tax relief could range from between a further 1 per cent up to a maximum of 30 per cent.

Claiming higher rate tax relief on personal pension contributions is for many people the single most important relief they can claim, yet hundreds of thousands could be missing out. To obtain your additional tax relief you must file a tax return or get HM Revenue & Customs to change your tax code. To do this, you have to contact your local tax office.

FULL TAX RELIEF STRAIGHT AWAY

If you are employed, usually your employer will take occupational pension contributions from your pay before deducting tax (but not National Insurance contributions). You only pay tax on what's left. So whether you pay tax at basic, higher or additional rate you receive the full relief straight away. ■

Personal protection

TRUST
Certain policies should also be written under an appropriate trust

CRITICAL ILLNESS
Provides you with a tax-free lump sum or regular income

Could you cope with the unexpected?

Personal protection is an important part of most people's financial planning requirements. The financial effects on your family in the event of death or illness could be profound. There are many protection options available and we can help you identify the most suitable for your specific requirements.

Personal protection is an important part of most people's financial planning requirements. The financial effects on your family in the event of death or illness could be profound.

If you were to die, at the very least you'd want your mortgage, debts and funeral costs to be paid for. You'd probably also want the security of knowing that your family would be able to maintain their current standard of living.

If you became seriously ill or were injured and had to give up work, you'd also want to be sure that your family could continue to be supported financially. You may decide to use your existing savings and investments, but how long would these last for before they ran out?

Considering protection solutions is a good way to safeguard against unforeseen events or expenses and can provide your dependants with the financial security you desire.

These are the basic protection foundations you should set up:

- **Life insurance:** this provides financial security for your dependants in the event of your death and helps them to pay some or all of the outstanding debts/financial commitments such as your mortgage and other liabilities
- **Income protection:** this replaces part of your income if you are unable to work because of an illness or disability for a short or a long period of time
- **Critical illness:** this provides you with a tax-free lump sum or regular income if you are diagnosed with a serious specified illness covered by the policy

Certain policies should also be written under an appropriate trust to ensure that monies pass to the right people at the right time and in the most tax-efficient manner. ■

IF YOU ALREADY HAVE SOME PROTECTION SOLUTIONS IN PLACE IT IS BENEFICIAL TO REVIEW THESE REGULARLY TO ENSURE THAT THEY CONTINUE TO MEET YOUR CURRENT NEEDS. FINANCIAL PLANNING SHOULD BEGIN WITH ENSURING THAT YOU HAVE A SECURE AND APPROPRIATE PROTECTION FOUNDATION IN PLACE TO COPE WITH DEALING WITH THE UNEXPECTED – PLEASE CONTACT US TO REVIEW YOUR CURRENT REQUIREMENTS.

Emerging Views

The lure of greater growth and younger economies

'Emerging markets' is a broad term that encompasses the giants of Brazil, Russia, India and China (BRIC), as well as some other nations. Emerging markets have continued to outperform developed markets, even during the difficult economic climate we have experienced throughout 2011. The lure for investors is greater growth and younger economies than typically found in the developed West, but the trade-off for this growth is higher volatility and greater risk.

The population and economic growth in these markets has created a potentially massive high-consuming middle class – estimated to be more than one billion people by 2030, according to the World Bank, April 2010.

Emerging markets have large reserves of natural resources and these reserves should also aid their future prosperity as commodities continue to be in high demand.

In addition, many emerging markets have lower government debt burdens than developed nations and may have large holdings of foreign exchange. This means that spending in most emerging markets has not been dramatically curbed by the recession, as has been the case in many developed nations, which has allowed further stimulation of their economies and infrastructures to continue while some domestic markets have waned. ■

Investments in emerging markets are by their nature generally considered to be higher risk. The value of these 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.

Protecting your key assets

UK businesses more inclined to protect office equipment than their own staff

Business protection is designed to help safeguard a business against the effects of losing key staff, partners in a partnership or shareholders through death, terminal or critical illness.

The fact is many small and medium-sized businesses rely on certain key people. Without these key persons the business could suffer serious financial loss, from losing a sales manager whose relationships ensure the new business goals remain on target to the designer responsible for new products.

UK BUSINESSES REMAIN WORRYINGLY PASSIVE

Recent research from Scottish Widows has revealed that UK businesses remain worryingly passive when it comes to protecting one of their key assets – their employees. This is despite over three-quarters (77 per cent) admitting that they can identify at least one individual whose loss through death or critical illness would have a serious impact on the profitability or future survival of the business.

77 per cent of businesses say they have a key employee whose loss would seriously impact the profitability or future survival of the business and yet only 13 per cent of these businesses have protection in place to mitigate this risk

Over a quarter of UK businesses (27 per cent) choose to protect against the breakdown of office equipment, compared to just 10 per cent who have protection against the loss of a key member of staff due to their death or critical illness

Almost a quarter (23 per cent) of business owners have invested their own money into the business in the last 12 months

BUSINESSES ARE RELUCTANT TO PROTECT THEMSELVES

The Scottish Widows Business Protection Report, which details research carried out with over 500 UK business decision makers, shows that the majority of businesses are still reluctant to protect themselves from the unexpected happening to a business owner or key member of staff.

Just 13 per cent of businesses who have identified the importance of a key person hold insurance that would protect the business against their loss and despite such a low take up of business protection, 60 per cent of businesses admit that they would definitely not survive the loss of a key person.

FUTURE SURVIVAL OF THE BUSINESS

In fact, it is more likely that UK businesses will insure office equipment, such as the photocopier, against breakdown than they are to insure a key individual whose skill sets are vital to the future survival of the business. The research shows that over a quarter (27 per cent) of businesses have insurance for office equipment in place, compared to just 6 per cent with financial protection if a key person dies and 4 per cent with protection if a key person suffers a critical illness.

A BETTER PROTECTED BUSINESS POPULATION

A logical conclusion as to why the take up of Business Protection is so low is down to a lack of knowledge and understanding of the benefits - with 38 per cent of businesses not taking out cover as they don't see its' value, 16 per cent saying they hadn't even thought about taking it out and 17 per cent saying they thought it would be too expensive. This highlights the value of sound professional financial advice which could potentially ensure a better informed and better protected business population.

Unfortunately, despite the majority of businesses openly acknowledging that the loss of a key person would have a severe, if not fatal impact on their future survival, just 29 per cent have actually sought any form of advice on business protection.

PERSONAL ASSETS AT RISK

In addition, the research highlights that in the last 12 months almost a quarter (27 per cent) of business owners have invested their own money into their business, while a further 13 per cent expect that they will have to in the future. If people are to put personal assets at risk then it is vital that they take the necessary steps to prevent a damaging impact not just on their business, but potentially their families and personal lives.

Iain McGowan, Head of Savings and Protection at Scottish Widows commented: "There are many reasons for business owners failing to take action. In some cases, this represents a failure to plan properly or a lack of understanding of the benefits of business protection. Perhaps even a refusal to contemplate the death or critical illness of a colleague. However the potential consequences to the business, demonstrate the importance of protecting arguably the one thing that can ensure its future survival; its employees." ■

IF YOU'RE A BUSINESS OWNER IT'S CRUCIAL THAT YOU SAFEGUARD YOUR BUSINESS AGAINST THE LOSS OF A KEY EMPLOYEE. TO DISCUSS YOUR PROTECTION PLANNING NEEDS, PLEASE CONTACT US.

77%

The percentage of businesses with a key employee whose loss would seriously impact the profitability or future survival of the business

Isn’t it time you had a financial review?

We’ll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

2%
Over-55s with long-term care insurance

81%
Percentage of concerned or worried, about meeting care costs

Is the elderly care system unsustainable?

70 per cent of over-55s do not believe they should pay for long-term care

Providing for care in later life, whether for yourself or a relative, can appear a complex issue. Most people with assets over £23,250* will be required to pay for their own care.

Despite government warnings that the current elderly care system is unsustainable, 70 per cent of over-55s don't believe that they should pay for care in retirement. Of those who do, they state that just £3,610 is a fair cost for a lifetime of care, reveals Aviva's latest Real Retirement Report.

With the annual cost of a room in a nursing home estimated to be on average £35,984**, how to pay for care can be a major concern for many people.

LONG-TERM CARE MATTERS

- Just 2 per cent of over-55s have long-term care insurance
- Majority (81 per cent) worried or concerned about meeting care costs
- Almost half (46 per cent) call on the government to set clear care standards

CARE CONUNDRUM

While the majority of over-55s would prefer not to pay for care, they do concede that it is unlikely that the State will be able to pay for everyone's care. The most popular funding options were for the "better off" to contribute to the cost of their own care but for the government to pick up the tab for everyone else (51 per cent) or for those who can afford to, to contribute to the cost of care (36 per cent).

How affordability is determined was a matter for debate with some suggesting it should be based on current assets (16 per cent) and others feeling lifetime income (14 per cent) should be the measure. Irrespective of what system was used, the majority (53 per cent) felt there should be a cap on how much an individual was forced to pay towards their own care.

LACK OF PLANNING

Despite the fact that under the current system people are expected to finance aspects of their care, the research highlighted a significant lack of preparation. Over half (53 per cent) of over-55s have no plans at all in place to meet these costs and 14 per cent continue to believe that the government will cover all the fees.

Even amongst those who do say they have some plans in place, just 2 per cent have long-term care insurance with others preferring to rely on savings and investments (13 per cent), housing equity (9 per cent), their pension funds (3 per cent) and on family assistance (3 per cent).

However, while some over-55s were happy to use their housing equity to finance care, a clear majority (62 per cent) believe that they should not be forced to sell their house to pay for care. Those aged 65-75 were the most averse to seeing their homes sold to pay for care (68 per cent) – potentially as they have already ear-marked the equity for other costs in retirement.

SIGNIFICANT CONCERNS AND CONFUSION

Just 19 per cent of over-55s say they are relaxed with the majority feeling concerned (41 per cent), just over a quarter feel worried (29 per cent) and – even – terrified (12 per cent) about the prospect of meeting long-term care costs. While there were lots of different options as to how care should be funded, one clear message from the research was that the over-55s needed more guidance.

Indeed, almost half (47 per cent) said there needs to be clearer information on the topic, 46 per cent felt the government should set clear universal care standards and 36 per cent would like to see a single government department responsible for all care issues. This move would help to clear up any confusion as 48 per cent of people look to the State in one form or another for advice on this issue – 18 per cent to the government directly, 16 per cent to their local council and 14 per cent to a medical professional.

RAPIDLY AGEING POPULATION

The research clearly shows that the majority of over-55s do not believe that they should have to pay for care in retirement. However with a rapidly ageing population, this is simply not possible and over-55s realise that they are likely to have to make some sort of contribution to the overall cost of their care. ■

** England 2011/2012*
*** Care of Elderly People UK Market Survey 2010/11 Laing & Buisson*

Take AIM with your investments

Invaluable tax break for experienced investors

Saving tax is a preoccupation for many investors. However, for some experienced investors the Alternative Investment Market (AIM) offers an invaluable tax break in the form of business property relief (BPR).

AIM is the most successful growth market in the world. Since its launch in 1995, over 3,000 companies from across the globe have chosen to join AIM, helping smaller and growing companies raise the capital they need for expansion.

STRONG GROUNDS FOR OPTIMISM

The most recently published survey of AIM companies and investors shows that there are strong grounds for optimism about the future of AIM and the small-cap sector.

Total fundraisings by companies on AIM were up 24 per cent in 2010 and the number of new companies that joined nearly trebled. The AIM All-share Indices increased in 2010 by more than 40 per cent, out-performing the FTSE 100 over the same period.

INHERITANCE TAX SAVINGS

By investing in certain AIM-listed companies, experienced investors could potentially save some 40 per cent on inheritance tax (IHT) on their eventual estate.

The shares that can be traded on AIM must not be fully listed on the London Stock Exchange (LSE) and will fall outside an investor's estate providing they are held for just two years. The shares must be held beneficially for the investor, which can be done either directly or via an investment manager.

NO PORTFOLIO SIZE LIMIT

There is no limit to the size of the portfolio, which can in all respects be treated like a normal portfolio. Shares could be 'swapped' for other AIM shares without losing the IHT break. The shares must be held until death; however, if they are cashed and the proceeds not reinvested in other BPR qualifying shares, they will fall back into an investor's estate and be taxed accordingly.

It's therefore important that the portfolio can be earmarked for the estate and won't be needed during a person's lifetime, although it is, of course, possible for it to revert back to the investor should they subsequently need the funds for expenses such as retirement home fees.

LOWER LEVEL OF DUE DILIGENCE

Liquidity risk is an important consideration and investors need to accept that AIM companies are subject to a lower level of due diligence than main listed firms. But a 'normal' equity portfolio of LSE stocks also carries risk for investors. AIM now has a market value of £75bn, according to the LSE.

There are plenty of well-run, highly successful companies listed on AIM with a strong market capitalisation. These companies offer BPR and therefore IHT advantages should a person holding them die, unlike their listed counterparts. ■

INVESTING IS NOT JUST ABOUT TAX BREAKS, IT ALSO NEEDS TO MAKE COMMERCIAL SENSE. A TAX BREAK WON'T COMPENSATE FOR A POOR INVESTMENT DECISION AND YOU SHOULD ALWAYS SEEK PROFESSIONAL ADVICE TO DISCUSS YOU PARTICULAR SITUATION.

Investments in AIM companies are by their nature generally considered to be higher risk. The value of these 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.

Millions of people are not saving enough

Only 7 per cent of larger employers have firm plans on auto-enrolment

Millions of people are not saving enough to have the income they are likely to want in retirement. Life expectancy in the UK is increasing and at the same time people are saving less into pensions.

In 1901 there were 10 people working for every pensioner in the UK. In 2005 there were 4 people working for every pensioner. By 2050 it is expected that this will change to just two workers for every pensioner.*

REFORM OF WORKPLACE PENSIONS

The Pensions Act 2008 laid the foundations for a fundamental reform of workplace pensions, requiring every employer to automatically enrol their workers into a qualifying pension scheme, if they are not already in one, and contribute to that pension.

ADDRESSING THE ISSUES

Automatic enrolment aims to address the issues that prevent people from saving into a pension scheme, such as:

- pensions saving being complicated and confusing;
- people simply not getting around to it;
- a lack of suitable pension products being available for people on low to moderate incomes; and
- lack of employer pension provision, particularly in smaller firms.

AUTO-ENROLMENT REGULATORY REQUIREMENTS

The majority of larger employers (93 per cent) do not yet have firm plans in place to meet auto-enrolment regulatory requirements, according to research from Standard Life. The timing depends upon the size of the employer. This will apply to very large employers first, in late 2012 and early 2013. Other employers will follow during 2013 to 2016.

The pension scheme must be a qualifying scheme, meaning it must meet certain government standards. This is the first time that employers have been required by law to contribute to their workers' pensions.

UNDECIDED ABOUT CONTRIBUTION LEVELS

Of the 200 larger employers surveyed by Standard Life, just 7 per cent had reached a decision on how they will deal with auto-enrolment. 39 per cent had set a date by which a decision will be made, however, over half of those surveyed (54 per cent) did not know when they would have their plans in place.

Over half (56 per cent) were undecided about the contribution levels they would be making for new members being auto-enrolled. Around a third (36 per cent) of employers confirmed they would pay the same levels and just 5 per cent indicated they would reduce payment for new members.

The research highlights that many employers still have some big decisions to make. The majority of those surveyed will need to commence auto-enrolment at some point during 2013 and there is a great deal of planning work that needs to be undertaken. ■

SPENDING TIME NOW UNDERSTANDING THE FINANCIAL IMPACT OF AUTO-ENROLMENT WILL HELP EMPLOYERS IDENTIFY THE DIFFICULT DECISIONS THAT NEED TO BE MADE. THE SOONER EMPLOYERS START THE PLANNING PROCESS, THE EASIER THE FINANCIAL AND ADMINISTRATIVE TRANSITION WILL BE. TO FIND OUT MORE PLEASE CONTACT US.

*Department for Work and Pensions

93%

The majority of larger employers with no firm plans in place to meet auto-enrolment regulatory requirements

56%
Adults in the UK with no life insurance in place

28m
Estimated percentage of the UK population with no life insurance

Financial support for your dependants

Over half of UK adults have no life insurance, leaving many families vulnerable

We can't predict the future, which makes it all the more important we're prepared for whatever life may throw at us. In the event that the worst happens to you life insurance could help support your dependants, giving you peace of mind that they'll be financially protected when you're gone.

A RANGE OF BENEFITS

Life insurance could provide a range of benefits should the worst happen to you, enabling you to pay off your mortgage; ensure your family is financially protected, cover the cost of school or university fees and still be able to pay for childcare costs.

Research from Scottish Widows shows that an estimated 28 million[1] of the UK population do not have any life insurance in place, leaving their loved ones vulnerable to financial insecurity if something were to happen to them.

- 56 per cent of adults in the UK don't have any life insurance in place to secure the financial wellbeing of their loved ones
- More UK adults insure their pets (15 per cent) and mobile phones (13 per cent) than they do their income in case of ill health (12 per cent)
- One-fifth of the population would consider cutting back on critical illness cover (21 per cent) and life insurance (20 per cent) compared to just 15 per cent prepared to cut back on broadband access
- Over half the population (54 per cent) say they review their finances regularly, yet uptake of protection products remains low

MANY CONTINE TO SHUN PROTECTION PRODUCTS

The third Scottish Widows Consumer Protection Report, which details research carried out on 5,148 UK Adults[2], shows that many are continuing to shun protection products including life insurance, critical illness cover and income protection.

Although over half of the UK population (54 per cent) admit to reviewing their finances once or twice a year and awareness of protection is high, the reality is that the take up of these products remains exceptionally low.

AWARENESS REMAINS HIGH

From those surveyed, 97 per cent were aware of life insurance and the importance of having it, however only 44 per cent had cover. Similarly, when it comes to critical illness cover the awareness remains high (86 per cent).

However the percent of respondents who have actually taken out a product is worryingly low at just 12 per cent. The same goes for income protection insurance where the awareness is 83 per cent, with take up at just 7 per cent.

The research also shows that almost a quarter of the UK population (23 per cent) say they believe they cannot afford life insurance and when it comes to critical illness cover 26 per cent state this as their primary barrier to not taking it out.

LUXURY VS. NECESSITY

A worrying trend is that many material goods (e.g. internet broadband) are seen as 'essential', whereas insuring income in case of illness is seen as a 'luxury'. 69 per cent of respondents said their broadband was essential to their day to day living and 55 per cent stated their mobile phone.

In contrast just 35 per cent said ensuring their financial security if they were unable to work was essential. Just 15 per cent of respondents said they would consider cutting back on broadband internet access, whilst a fifth said they would be prepared to cut back on critical illness and life insurance.

COPING STRATEGIES SHOULD THE WORST HAPPEN

The research shows that when faced with the prospect of the loss of their or their partner's income, over two-fifths (44 per cent) of respondents would make cuts on their general expenditure and 43 per cent said they would delve into their savings. This is a worrying statistic, given that 58 per cent of people surveyed have less than £2,500 in savings, don't have any at all or don't know how much they have. This would not go far if you consider that the average monthly mortgage (Interest and Capital repayment) in the UK for new borrowers currently stands at £577[3] a month. ■

[1] General population over 18 in mid 2010 = 49,212,000 according to GAD http://www.gad.gov.uk/Demography%20 Data /Population/2006/uk/wuk06singyear. xls (F27 to F104). Calculation = 56 per cent of 49,212,000

[2] The survey was carried out online by YouGov who interviewed a total of 5,148 UK adults between 23rd and 28th February 2011. The figures have been weighted and are representative of all UK adults (aged 18+)

[3] Halifax and the Bank of England average monthly mortgage payment for a new borrower (Interest and Capital repayment, February 2011)

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

Giving away your wealth

40%
Percentage of people that expect to use an inheritance to fund part of their retirement

20yrs
The period over which the average house price has doubled

The British taboo of inheritance

Britons are still reluctant to talk openly with their parents about any expected inheritance, according to figures released by Aviva. Almost two-thirds have not, or would not talk about the subject openly with their parents, despite the fact that 40 per cent of people still expect an inheritance and may even build it into their retirement planning.

"HOLY-GRAIL" OF INHERITANCE

Despite this expectation, encouragingly more than three-quarters (76 per cent) of those asked would still be happy for their parents or grandparents to take money from their property, often seen as the "holy-grail" of inheritance, so that they may enjoy their retirement.

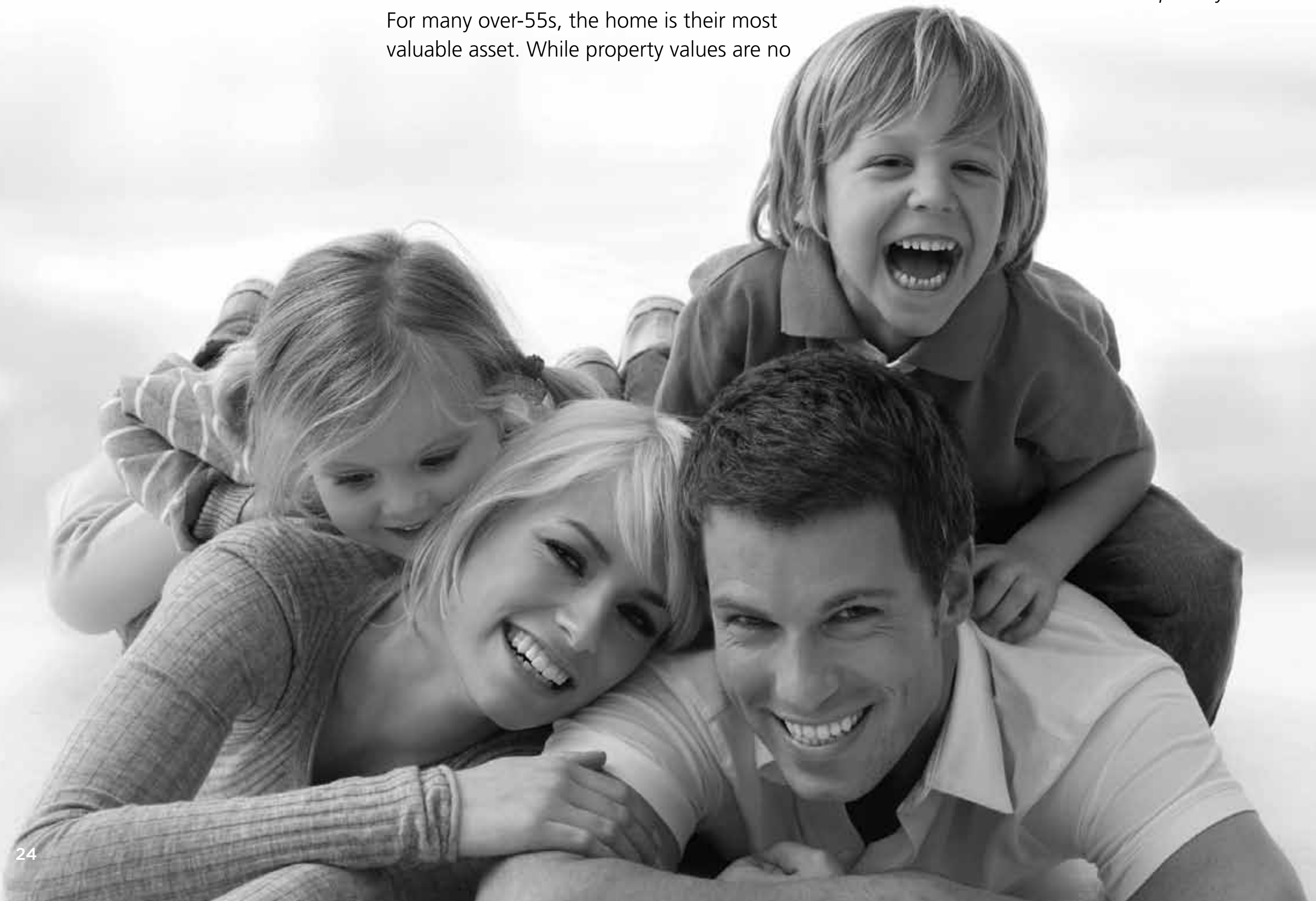
As highlighted in Aviva's Real Retirement Report, the rising cost of living has meant that the average unsecured debt of over-55s is £17,112, including debt on credit cards (30 per cent), personal loans (14 per cent), overdrafts (10 per cent) and store cards (7 per cent).

MOST VALUABLE ASSET

For many over-55s, the home is their most valuable asset. While property values are no longer racing ahead as they once did, house prices have more than doubled over the last 20 years, and the average house price for over-55s is £231,306*. This is much higher than the national average of £160,519*.

As house prices have risen, equity release has become increasingly popular, as more cash-strapped retirees consider how to fund the lifestyle they want. Turning to their home in order to fund their later years has been a solution for many, with the over-55 population holding an estimated £1.9 trillion** in equity in the UK. ■

** May 2011*
***Calculations taken from the June 2011 Real Retirement Report by Aviva.*



Losing a loved one is greatest fear in retirement

It's understandable that parents and grandparents want to pass their wealth on to the next generations and by making a will we can decide what happens to our property and possessions after our death. Although you do not have to make one by law, it is the best way to make sure your estate is passed on to family and friends exactly as you wish. If you die without a will, your assets may be distributed according to the law rather than your wishes.

A COMPLICATED AND COSTLY PROCESS

Dying without one can create a complicated and costly process, possibly causing family rifts and further problems for those left behind. A third (32 per cent) of retired Britons declared that losing a partner, loved one or close friend is their greatest fear in retirement, according to research from Standard Life.

The savings and investment specialist Standard Life is using the research to encourage the public to consider their estate planning requirements, including the creation of a will, so they can ensure their loved ones are financially secure after their death.

A LEGALLY BINDING WILL

Standard Life is highlighting to the public they should seek professional advice as the legislation associated with passing on wealth is very complicated and the rules between married and civil partnered couples does not apply to cohabiting couples or close friends. The simplest way for individuals to ensure their estate is paid to the right people is to create a legally binding will - previous research from Standard Life showed that as little as 48 per cent1 of the people in the UK have a will in place.

Further results from the research shows in light of the current inflationary pressures the public is facing, the rising cost of living (20 per cent) is the retired population's country's second worst fear in retirement and worries about getting returns on their savings and investments (11 per cent) coming in third for those surveyed.

SERIOUS FINANCIAL IMPACT

Regardless of an individual's age losing a loved one can have a serious financial impact, but this problem is accentuated in retirement. And while married and civil partner couples benefit from the spousal inheritance tax exemption and the transferable nil rate band, cohabiting couples or close friends don't.

The complications of dying without a will can be devastating on others and this is made even worse when going through the heartache of personal loss. Seeking the right advice when creating a will ensures loved ones will be financially secure and that their wealth is passed on correctly.

The research also shows that nearly half (47 per cent) of the UK want to leave an inheritance to their children, with a tenth (11 per cent) directing it to their grandchildren. ■

Laws and tax rules may change in the future. The information here is based on our experts' understanding of the current situation.

Junior savers

Avoiding the inflationary risk which comes with cash investments

The merits of the new Junior Individual Savings Account (ISA) are clear according to Fidelity Worldwide Investments but where to invest the allowance needs consideration. With the current low interest-rate environment many savers who would have not contemplated investing in funds may now decide to do so in order to avoid the inflationary risk which comes with cash investments.

GOVERNMENT-BACKED SAVINGS SCHEME

Junior ISAs are a new government-backed savings scheme for children under the age of 18. You can invest up to £3,600 in the current tax year in a cash or stocks and shares Junior ISA, or a combination of both. Multi Asset or Multi Manager funds may be a sensible option for your Junior ISA investment, especially during these volatile times. You would not have to keep changing your asset allocation to gain from market fluctuations; you could leave that to the fund manager to monitor and make use of their expertise.

Managed solutions such as Multi Asset or Multi Manager funds may also make sense for those who want to put money aside for their children but don't want to have to worry about where to invest the money. These funds are designed for smooth returns without the individual investor worrying where to make changes in allocation.

TIME INVESTMENT HORIZON

When considering investments for the Junior ISA, parents should consider the time horizon for their investment. The longer the time horizon, the more beneficial it will be to own higher - return but riskier assets. We are currently in a two speed world, with the Asian economies faring much better than those in the West.

Investors may wish to consider exposure to this growth differential either via regional funds or via the UK where many FTSE listed companies have a strong exposure to emerging markets. The longer time horizons enjoyed by many Junior ISA investors are likely to be appropriate for riskier investments because they can benefit from the ability to ride the ups and downs of more volatile investments.

HIGH YIELD EQUITY INCOME FUND FOCUS

Longer-term investors can also focus on high yield equity income funds. The reason for this is that dividend income has always provided the lion's share of total returns from equities, thanks to the benefit of compounding and the relative reliability of dividend income compared with capital growth. In a low-growth environment, this is likely to be even more the case.

For those with a shorter time frame, they could consider life-style investing where a portfolio is automatically wound down from a high equity content in the early years to a higher bond and cash weighting as the target date approaches. ■

The value of investments can fall as well as rise, so your children may get back less than you invest. Tax savings and eligibility to invest in a Junior ISA will depend on personal circumstances. All tax rules may change in future.

3,600
The maximum amount you can invest up to in a Junior ISA for the current tax year

17yrs
The maximum age children can start a Junior ISA

The new kid on the block

Pooling your money with thousands of other people

British collective investment funds that pool money from lots of investors go back to 1868. The first funds were investment companies - listed companies that offer shares to investors and then buy shares in other companies with the monies they collect in. Just like fully functioning companies, investment companies have boards of directors to oversee the managers' efforts, shareholders with voting rights, and reports and accounts.

CLOSED-ENDED

They are known as "closed-ended" as they have a fixed number of shares in the market. If the fund does well, the value of the investments rises (called the net asset value) and the share price should follow. In reality, there is usually a time delay and shares can trade at a discount when worth less collectively than the value of the fund, or at a premium if worth more.

Investment companies can also borrow money so they can invest in more stocks. Called gearing, this can accelerate performance if the fund manager does well, but can damage performance by a greater amount if the manager fails to deliver.

A FUND IS BORN

As issuing new shares can be cumbersome and costly, another form of fund was born called the unit trust. These issue new units every time someone invests in the fund, so the value of the fund and the value of the units are always in line, with no discounts or premiums. Also, as the funds are not structured as companies, there is no stock market listing and, instead of shareholders, investors are called unit holders and have trustees to ensure all is above board.

Unit trusts usually have a bid-offer spread, the difference between the selling price and the buying price. As unit trusts took off in Britain, another type of fund was taking Europe by storm.

SHAREHOLDER VOTING RIGHTS

The société d'investissement à capital variable (SICAV), like investment companies, these have shareholders with voting rights and boards of directors. Luxembourg is their favoured home and many are sold right across Europe. And like unit trusts, they are able to take in new money by issuing new shares each time someone invests. They also tend to have sub-funds that deal in different asset classes or separate currencies for various markets.

Unlike their continental counterparts, unit trusts have been difficult to sell in Europe as international buyers do not like the British trust structure. So in 1997, the Open Ended Investment Company (OEICs) - pronounced 'oik' - came into existence. The FSA's rules governing which types of fund could convert to OEICs were relaxed in 2001 and since then, the majority of fund management groups have converted their unit trusts to OEICs or launched OEIC funds. ■

CHOOSING WHICH TYPE OF FUND TO BUY DEPENDS NOT ONLY ON WHERE YOU LIVE, BUT WHAT YOUR ATTITUDE TO RISK AND YOUR AIMS AND OBJECTIVES ARE. YOU SHOULD SEEK PROFESSIONAL ADVICE TO ENSURE YOU MAKE THE RIGHT CHOICES. FOR MORE INFORMATION ABOUT HOW WE COULD ASSIST YOU TO IMPLEMENT THE MOST APPROPRIATE INVESTMENT STRATEGIES FOR YOUR CIRCUMSTANCES, PLEASE CONTACT US.

The value of these 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.

75

It is no longer compulsory to buy an annuity at this age

A new flexible friend

£20,000

The amount you have to declare you are already receiving annually as a secure pension income

Withdrawing as little or as much income from your pension fund as you wish

Generating a retirement income has now become even more flexible. From 6 April, new rules were introduced to replace the previous pension drawdown arrangement which have now provided investors with greater flexibility and control over their pension options when they retire.

QUALIFYING FOR THIS OPTION

Flexible drawdown is more flexible than the previous income drawdown, and if you qualify for this option it removes the cap on the income you could take. This will not be available to everyone and there are certain criteria that must be met before you can opt for it.

Flexible drawdown gives some individuals the opportunity to withdraw as little or as much income from their pension fund, as and when they need it. To qualify, you have to declare that you are already receiving a secure pension income of at least £20,000 a year and have finished saving into pensions. The same rules apply to dependants who elect flexible drawdown.

SECURE PENSION INCOME

If pension contributions have been made to any pension in the same tax year or if you are still an active member of a final salary scheme, it isn't possible to start flexible drawdown. Once in flexible drawdown, it isn't possible to make further pension contributions.

A secure pension income means a company pension being paid to you either from the UK or from overseas; or an annuity being paid to you (from a personal pension or company pension) either from the UK or from overseas; or a State pension being paid to you either from the UK or from overseas.

DID YOU KNOW?

- The effective compulsion to buy an annuity by age 75 has ended
- You now have more flexibility to defer taking a pension and tax-free cash payments post age 75
- Capped drawdown – this option enables you to draw an income for life, with an annual limit, without having to purchase an annuity
- Flexible drawdown – if you have a secure income of over £20,000 per annum you will not be subject to limits on the income you take from your drawdown
- There has been an increase in the tax payable on lump sum death benefits from drawdown

FLEXIBILITY AND CONTROL OVER YOUR PENSION

These new rules, with the exception of the increased tax on death payouts, could benefit those who do not want to buy an annuity by age 75 or who want more flexibility and control over their pension.

However, the majority of people may still want to purchase an annuity in retirement, because it enables them to secure a guaranteed income in retirement. ■

PLANNING FOR YOUR RETIREMENT CAN MAKE A WORLD OF DIFFERENCE. FOR MORE INFORMATION ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

The fund value of a flexible drawdown arrangement may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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