FINANCIAL GUIDE

A GUIDE TO

WEALTH MANAGEMENT

FINANCIAL ADVICE THAT ADAPTS AS YOUR NEEDS CHANGE OVER TIME

WELCOME

The freedom to choose what you do with your money

Welcome to *A Guide to Wealth Management*. As wealth grows, so too can the complexity of its management. However, one of the major obstacles to effective planning is the gap between the perception of wealth and reality of wealth.

The most important step in the planning process is to establish clear and concise objectives for your wealth management plan, and to acknowledge and address the desired level of involvement you want to retain in managing your wealth. It should also take into account your total estate plan in a manner that is timely, effective and tax-efficient.

In this guide, we look at different ways to create, conserve and enhance wealth. We are able to offer you bespoke solutions at every stage of your wealth planning cycle – from maintaining liquid cash reserves and managing wealth as it grows, to finding the best ways to preserve and pass on the wealth you have created.

If you would like to discuss the range of services we offer, please contact us for further information.

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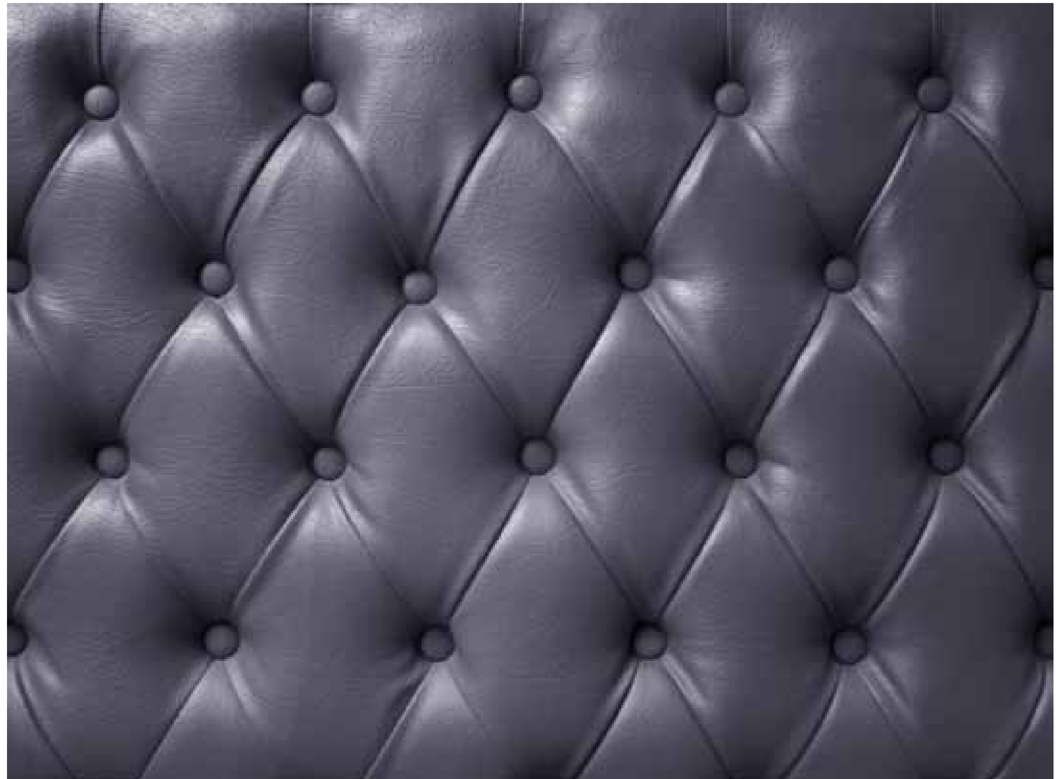


INVESTMENT
WEALTH CREATION

The first step to building wealth starts with a disciplined decision to pay yourself first, then compounds with a disciplined investment approach.

When you define your investment objectives, the priority of where and how to invest should be guided by your specific goals. It should also naturally encourage you to do more as you see it working – encouraging you to further increase, grow and build your wealth. We can help you secure the financial future that you want to achieve and your lifetime goals, enabling you to structure your finances as tax-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 the more complex undertaking of creating an investment portfolio to grow your wealth for the long term.

A properly crafted wealth management strategy allows you to make informed decisions about the investment choices that are right for you, by assessing your life priorities, goals and attitude towards risk for return.

To discuss your requirements or for further information, please contact us – we look forward to hearing from you.

We can help you secure the financial future that you want to achieve and your lifetime goals, enabling you to structure your finances as tax-efficiently as possible.

INVESTMENT

SPREADING RISK IN YOUR PORTFOLIO

One of the principal tenets of spreading risk in your portfolio is to diversify your investments. Diversification is the process of investing in areas that have little or no relation to each other.

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

The main ways you can diversify your portfolio

ASSETS

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

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

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

It takes patience and discipline to implement an effective long-term investment strategy. In identifying and evaluating opportunities, we seek to understand how financial markets behave by observing asset valuations, price momentum, investor sentiment and economic climate as indicators of future investment performance.

SECTORS

Once you've decided on the assets you want to hold in your portfolio, you can diversify further by investing in different sectors, preferably those that aren't related to each other. The investment world changes constantly so when looking at investing in equity markets, it is prudent to invest in different sectors.

For example, some sectors may typically be less volatile, which may appeal if you are focused on predictability and capital preservation. Meanwhile, other sectors that have more growth prospects and higher volatility may appeal if you have a higher risk tolerance. Many fund managers also focus on sector-specific investments. In some cases, fund managers may only focus on investing in one sector, such as the technology sector or the healthcare sector.

Additionally, some fund managers may invest in a range of sectors and companies, but veer away from certain sectors if they don't like the current prospects for that sector. For example, if the healthcare sector takes a downturn, this will not necessarily have an impact on the precious metals sector. This helps to make sure your portfolio is protected from falls in certain industries.

GEOGRAPHY

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

Many markets are not correlated with each other – if the Asian Pacific stock markets perform poorly, it doesn't necessarily mean that the UK's market will be negatively affected. By investing in different regions and areas, you're spreading the risk that comes from the markets.

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

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

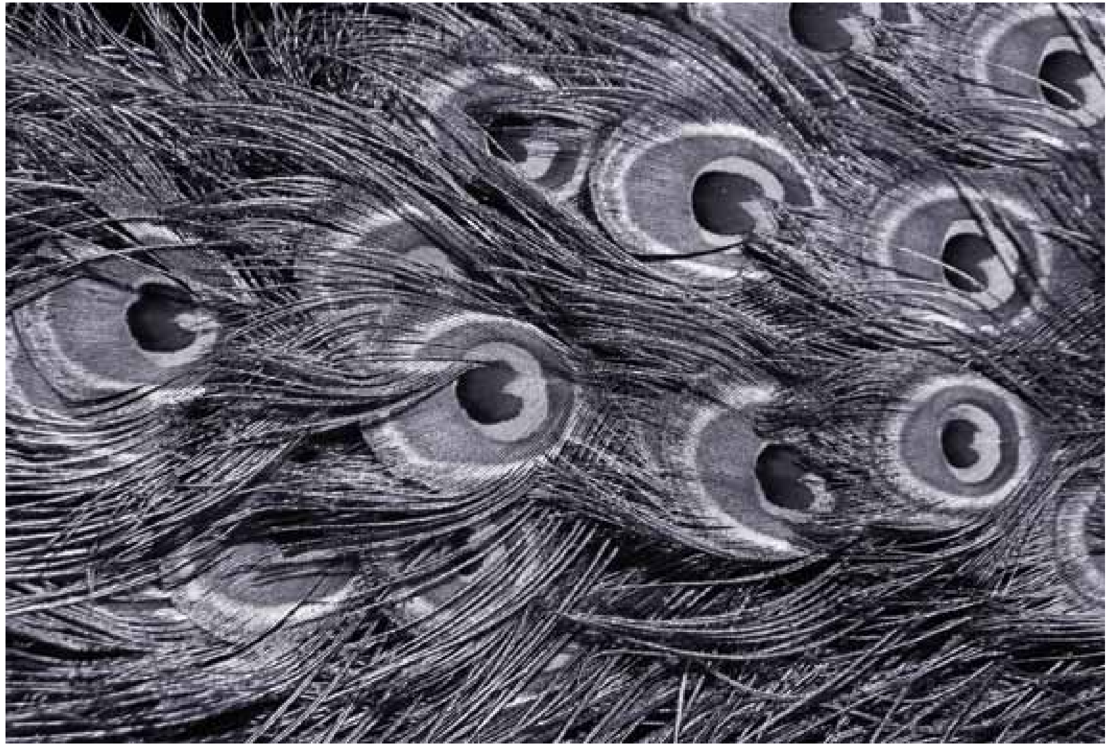
COMPANY

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

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

BEWARE OF OVER-DIVERSIFICATION

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



INVESTMENT ASSET CLASSES

When putting together an investment portfolio, there are a number of asset classes, or types of investments, that can be combined in different ways. The starting point is cash – and the aim of employing the other asset classes is to achieve a better return than could be achieved by leaving all of the investment on deposit.

CASH

The most common types of cash investments are bank and building society savings accounts and money market funds (investment vehicles which invest in securities such as short-term bonds to enable institutions and larger personal investors to invest cash for the short term).

Money held in the bank is arguably more secure than any of the other asset classes, but it is also likely to provide the poorest return over the long term. Indeed, with inflation currently above the level of interest provided by many accounts, the real value of cash held on deposit is falling.

Your money could be eroded by the effects of inflation and tax. For example, if your account pays 1% but inflation is running at 1%, you are not making any real terms, and if your savings are taxed, that return will be reduced even further.

BONDS

Bonds are effectively IOUs issued by governments or companies. In return for your initial investment, the issuer pays a pre-agreed regular return (the 'coupon') for a fixed term, at the end of which it agrees to return your initial investment. Depending on the financial strength of the issuer, bonds can be very low or relatively high risk, and the level of interest paid varies accordingly, with higher-risk issuers needing to offer more attractive coupons to attract investment.

As long as the issuer is still solvent at the time the bond matures, investors get back the initial value of the bond. However, during the life of the bond its price will fluctuate to take account of a number of factors, including:

Interest rates – as cash is an alternative lower risk investment, the value of government bonds is particularly affected by changes in interest rates. Rising base rates will tend to lead to lower government bond prices, and vice versa.

Inflation expectations – the coupons paid by the majority of bonds do not change over time. Therefore, high inflation reduces the real value of future coupon payments, making bonds less attractive and driving their prices lower.

Credit quality – the ability of the issuer to pay regular coupons and redeem the bonds at maturity is a key consideration for bond investors. Higher risk bonds such as corporate bonds are susceptible to changes in the perceived credit worthiness of the issuer.

EQUITIES

Equities, or shares in companies, are regarded as riskier investments than bonds, but they also tend to produce superior returns over the long term. They are riskier because, in the event of a

company getting into financial difficulty, bond holders rank ahead of equity holders when the remaining cash is distributed. However, their superior long-term returns come from the fact that, unlike a bond, which matures at the same price at which it was issued, share prices can rise dramatically as a company grows.

Returns from equities are made up of changes in the share price and, in some cases, dividends paid by the company to its investors. Share prices fluctuate constantly as a result of factors such as:

Company profits – by buying shares, you are effectively investing in the future profitability of a company, so the operating outlook for the business is of paramount importance. Higher profits are likely to lead to a higher share price and/or increased dividends, whereas sustained losses could place the dividend or even the long-term viability of the business in jeopardy.

Economic background – companies perform best in an environment of healthy economic growth, modest inflation and low interest rates. A poor outlook for growth could suggest waning demand for the company's products or services. High inflation could impact companies in the form of increased input prices, although in some cases companies may be able to pass this on to consumers. Rising interest rates could put strain on companies that have borrowed heavily to grow the business.

Investor sentiment – as higher risk assets, equities are susceptible to changes in investor sentiment. Deterioration in risk appetite normally sees share prices fall, while a turn to positive sentiment can see equity markets rise sharply.

PROPERTY

In investment terms, property normally means commercial real estate – offices, warehouses, retail units and the like. Unlike the assets we have mentioned so far, properties are unique – only one fund can own a particular office building or shop.

The performance of these assets can sometimes be dominated by changes

When managed properly, the relatively stable nature of property's income return is key to its appeal for investors.

in capital values. These unusually dramatic moves in capital value illustrate another of property's key characteristics, namely its relative illiquidity compared to equities or bonds. Buying equities or bonds is normally a relatively quick and inexpensive process, but property investing involves considerable valuation and legal involvement.

As such, the process is longer and dealing costs are higher. When there is a wholesale trend towards selling property, as was the case in 2007, prices can fall significantly. Conversely, when there are more buyers than sellers, as happened in 2009, price rises can be swift.

The more normal state of affairs is for rental income to be the main driver of commercial property returns. Owners of property can enhance the income potential and capital value of their assets by undertaking refurbishment work or other improvements. Indeed, without such work, property can quickly become uncompetitive and run down.

When managed properly, the relatively stable nature of property's income return is key to its appeal for investors.

MIX OF ASSETS

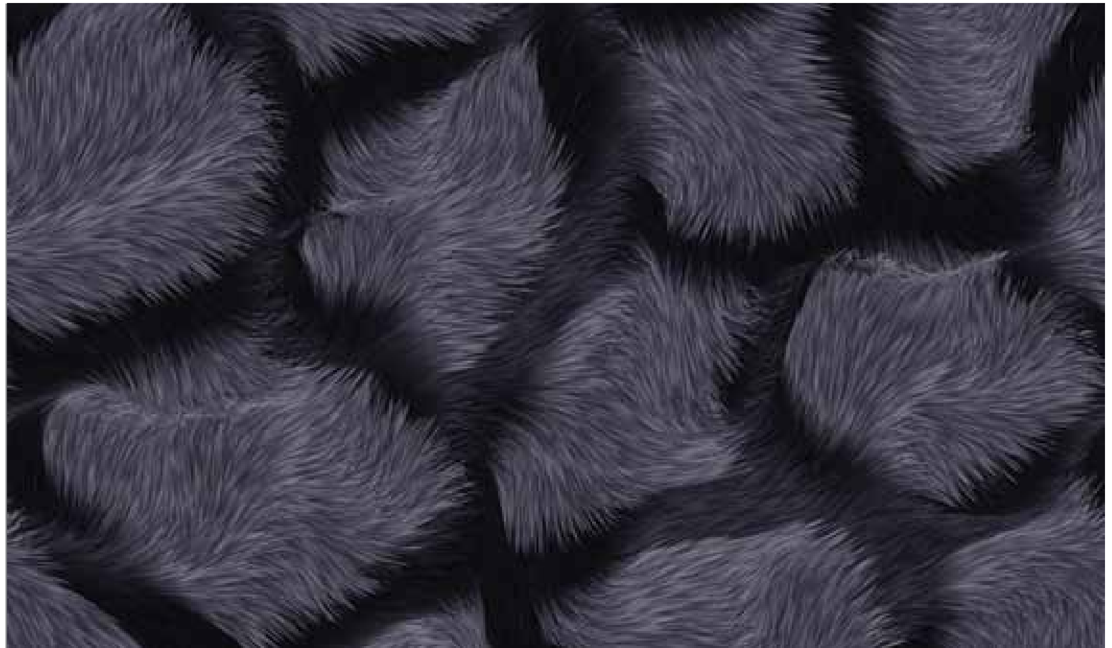
In order to maximise the performance potential of a diversified investment portfolio, managers actively change the mix of assets they hold to reflect the prevailing market conditions. These changes can be made at a number of levels including the overall asset mix, the target markets within each asset class and the risk profile of underlying funds within markets.

As a rule, an environment of positive or recovering economic growth and healthy risk appetite would be likely to prompt an increased weighting in equities and a lower exposure to bonds. Within these baskets of assets, the manager might also move into more aggressive portfolios when markets are doing well and more cautious ones when conditions are more difficult. Geographical factors such as local economic growth, interest rates and the political background will also affect the weighting between markets within equities and bonds.

In the underlying portfolios, managers will normally adopt a more defensive positioning when risk appetite is low. For example, in equities they might have higher weightings in large companies operating in parts of the market that are less reliant on robust economic growth. Conversely, when risk appetite is abundant, underlying portfolios will tend to raise their exposure to more economically sensitive parts of the market and to smaller companies.

BUILDING A DIVERSIFIED PORTFOLIO

Some investors may choose to build their own portfolios, either by buying shares, bonds and other assets directly or by combining funds investing in each area. However, this can be a very time-consuming approach and it maybe difficult to keep abreast of developments in the markets, whilst also researching all the funds on offer. For this reason, some investors may alternatively prefer to place their portfolio into the hands of professional managers, and to entrust the selection of those managers to a professional adviser.



INVESTMENT

REDUCING THE OVERALL LEVEL OF INVESTMENT RISK

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

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

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

TYPE OF INCOME FUNDS

There are four main types of income fund:

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

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

Equity Income Funds – the income comes from dividends paid to shareholders. In return for some risk to your capital, you may get a more regular income than you would from cash, and that income, as well as your capital, may increase over time.

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

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

GENERATING INCOME

INTEREST FROM CASH OR MONEY MARKET FUNDS

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

FIXED INTEREST FROM BONDS

Bonds are issued by governments (known as 'gilts' in the UK) and companies ('corporate bonds') to investors as a way to borrow money for a set period of time (perhaps 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.

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

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

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

DIVIDENDS FROM SHARES AND EQUITY INCOME FUNDS

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

RENTAL INCOME FROM PROPERTY AND PROPERTY FUNDS

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

BALANCE YOUR NEED FOR A REGULAR INCOME WITH THE RISKS

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

INCOME FUNDS OF THE SAME TYPE ARE GROUPED IN SECTORS

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

LOOK AT THE FUND YIELD

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

DECIDE HOW FREQUENTLY YOU WISH TO RECEIVE YOUR INCOME

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

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.

SELECT INCOME UNITS/SHARES IF YOU NEED CASH REGULARLY

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

INVESTMENT

POOLED INVESTMENTS

If you require your money to provide the potential for capital growth or income, or a combination of both, and 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.

A pooled investment allows you to invest in a large, professionally managed portfolio of assets with many other 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.

INVESTMENT

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 judgement 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'.

Some funds invest not in shares directly but in a number of other funds.

INVESTMENT

NEW INDIVIDUAL SAVINGS ACCOUNT (NISA)

The New Individual Savings Account (NISA) rules were introduced in July 2014 designed to help and encourage people to save more for their future and give savers and investors more flexibility and a larger tax-efficient allowance than ever before. This tax efficient 'wrapper' can hold investments such as unit trusts, other collectives such as OEIC's, shares and cash.

Four out of ten people told the consumer organisation Which? that they would save more as a result of the annual limit increasing to £15,000, up from £11,880.

Over the previous 15 years, more than 23 million people have opened ISAs, totalling over £440 billion, according to HM Revenue & Customs.

The increase in the total amount you can save and invest in what are now called New Individual Savings Accounts (NISAs) is not the only change since July.

DID YOU KNOW?

- You can decide how you want to split the £15,000 between the Cash and Stocks & Shares parts of a NISA.
- Or you can allocate the whole £15,000 into either a Cash or Stocks & Shares NISA.
- Previously you could only put up to half the annual ISA allowance into a Cash ISA.
- You can move your money from a Stocks & Shares NISA into a Cash NISA, or vice versa.
- Previously you couldn't move money from a Stocks & Shares ISA into a Cash ISA.

NEW FLEXIBILITY AND HIGHER LIMITS

- You pay no tax on the interest you earn in a Cash NISA.
- With a Stocks & Shares NISA, you pay no capital gains tax on any profits and no tax on interest earned on bonds. The dividends paid on shares or funds do have the basic rate of 10% tax deducted. This means that higher and additional rate taxpayers don't have to pay their higher rate of tax on their dividend payments.

IT'S NEVER TOO LATE TO START

If you've already paid into an NISA in this current tax year, you can top it up to the new limit if your provider allows – each account provider will have different deadlines by which date all requests to increase amounts must be processed.

If you want to add more money and your provider doesn't allow it, if appropriate you could transfer your existing Cash ISA to another provider that will allow top-ups. You'll need to check first whether there are any penalties for transferring to another provider.

Another alternative if you've opened a Cash ISA and not fully utilised your allowance at the start of this tax year is to open a Stocks & Shares NISA to use the rest of your allowance. Remember, you are only allowed to open one Cash NISA and one Stocks & Shares NISA in one tax year.

'Four out of ten people told the consumer organisation Which? that they would save more as a result of the annual limit increasing to £15,000, up from £11,880.'

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.

INVESTMENT

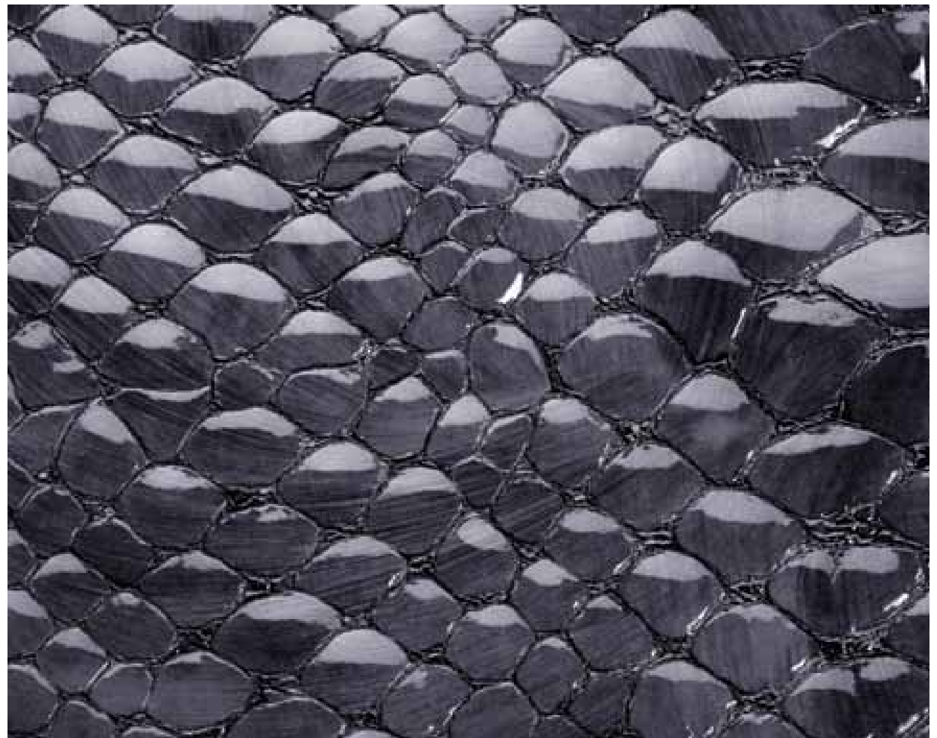
OPEN-ENDED INVESTMENT COMPANIES

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 & Shares New Individual Savings Account (NISA). 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

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.

A trust's shares are said to be at a premium when the market price is more than the NAV per share.

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. However, this facility, combined with the ability to borrow money for investments, can 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.

No capital gains tax is paid on the gains that you make, and you do not pay basic rate income tax on any income.

INVESTMENT

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%), but not until you cash in your bonds or make partial withdrawals of over 5% 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% for 20 years without any immediate tax liability. It is possible to carry these 5% allowances forward, so if you make no withdrawals one year, you can withdraw 10% of your investment the next without triggering a tax charge.

INVESTMENT

INVESTING FOR INCOME

During 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. With interest rates at their lowest levels in history, those relying on the interest from bank or building society accounts to supplement their income potentially face a problem. Indeed, once tax and inflation are taken into account, for many their capital on deposit is at risk of losing money in real terms.

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.

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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.

If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money.

> *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.*

INVESTMENT

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.

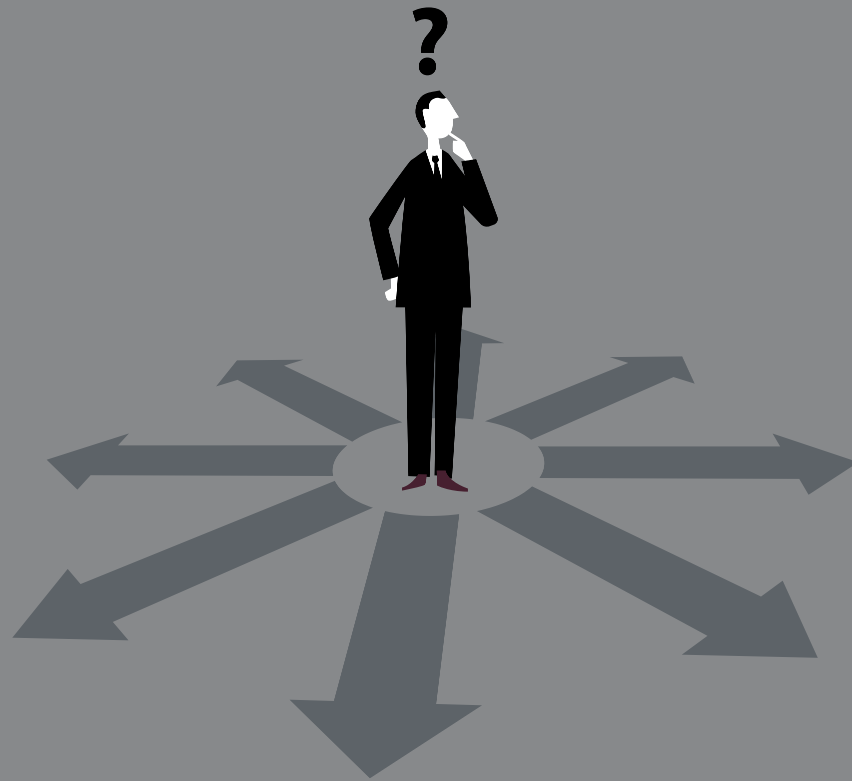
The wide choice of different investment types available include, offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

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.



TIME TO MAKE SURE YOU'RE ON TRACK TO ACHIEVING FINANCIAL FREEDOM?

We can help you build up the tax-efficient funds you'll need to satisfy your future requirements and make sure you stay on track.

TALK TO US ABOUT HOW YOU CAN:

- Set clear goals for your retirement
- Take control of your existing retirement savings
- Maximise your use of generous tax allowances
- Tailor an investment strategy appropriate to your needs
- Maximise your post-tax income in retirement
- Adapt to changing circumstances

RETIREMENT

FINANCIAL INDEPENDENCE

Retirement should be an exciting time, and these days there's more scope than ever to arrange your finances the way you want them. That flexibility is great, and following the radical shake-up of Britain's pensions system unveiled in Budget 2014 it does now mean that future financial decisions need careful consideration.

The contents of the Taxation of Pensions Bill, published on 14 October, dealing with pension reforms, are likely to affect everyone. There is a lot to think about, and you should obtain professional financial advice sooner rather than later to check how these reforms may impact on your particular situation.

To discuss your requirements or for further information, please contact us – we look forward to hearing from you.

The contents of the Taxation of Pensions Bill, published on 14 October, dealing with pension reforms, are likely to affect everyone.

RETIREMENT

PENSION FREEDOM, THE MOST RADICAL REFORMS THIS CENTURY

In Budget 2014, Chancellor George Osborne promised greater pension freedom from 6 April 2015. People will be able to access as much or as little of their defined contribution pension as they want and pass on their hard-earned pensions to their families tax-free.

For some people, an annuity may still be the right option, whereas others might want to take their whole tax-free lump sum and convert the rest to drawdown.

EXTENDED CHOICES

'We've extended the choices even further by offering people the option of taking a number of smaller lump sums, instead of one single big lump sum,' Mr Osborne said.

From 6 April 2015, people will be allowed full freedom to access their pension savings at retirement. Pension Freedom Day, as it has been named, is the day that savers can access their pension savings when they want. Each time they do, 25% of what they take out will be tax-free. Under current rules, a 25% withdrawal must be taken as a single lump sum on retirement to be free of tax.

FREE TO CHOOSE

Mr Osborne said, 'People who have worked hard and saved all their lives should be free to choose what they do with their money, and that freedom is central to our long-term economic plan.'

From 6 April 2015, people aged 55 and over can access all or some of their pension without any of the tax restrictions that currently apply. The pension company can choose to offer this freedom to access money, but it does not have to do so.

ACCESSING MONEY

It will be important to obtain professional financial advice to ensure that you access your money safely, without unnecessary costs and a potential tax bill.

Generally, most companies will allow you to take the full amount out in one go. You can access the first 25% of your pension fund tax-free. The remainder is added to your income for the year, to be taxed at your marginal income tax rate.

This means a non–tax payer could pay 20% or even 40% tax on some of their withdrawal, and basic rate taxpayers might easily slip into a higher rate tax band. For those earning closer to £100,000, they could lose their personal allowance and be subject to a 60% marginal tax charge.

POTENTIAL TAX BILL

If appropriate, it may be more tax-efficient to withdraw the money over a number of years to minimise a potential tax bill. If your pension provider is uncooperative because the contract does not permit this facility, you may want to consider moving pension providers.

You need to prepare and start early to assess your own financial situation. Some providers may take months to process pension transfers, so you'll need time to do your research.

QUESTIONS TO ASK

You will need to ask yourself some important questions. Are there any penalties for taking the money early? Are these worth paying for or can they be avoided by waiting? Are there any special benefits such as a higher tax-free cash entitlement or guaranteed annuity rates that would be worth keeping?

If you decide, after receiving professional financial advice, that moving providers is the right thing to do, then we can help you search the market for a provider who will allow flexible access.

Importantly, it's not all about the process. You also need to think about the end results.

WITHDRAWING MONEY

What do you want to do with the money once you've withdrawn it? You may have earmarked some to spend on a treat, but most people want to keep the money saved for their retirement. Paying off debt is usually a good idea.

If you plan just to put the money in the bank, you must remember you maybe be taxed on the interest. With returns on cash at paltry levels, you might be better keeping it in a pension until you need to spend it. Furthermore, this may also save on inheritance tax.

Expect queues as we approach April 2015 as there's likely to be a backlog of people who've put off doing anything with their pension monies. Those who get through the process quickly and efficiently will be the ones who've done the groundwork.

RETIREMENT

CLEVER RETIREMENT STRATEGIES

On 10 July 2014, the Office for Budget Responsibility warned that many of us might not be eligible for a State Pension until we reach the age of 70. That's the minimum age the Government will be able to afford to pay our pensions by 2063 if it is also to stop the national debt spiralling out of control.

This milestone could be reached as soon as 2037 – meaning that some people in their late 40s today may have to work to age 70. And if the population ages more quickly than currently forecast, the State Pension age could increase to age 75 in 2064. By then, the UK's official budget watchdog says there could be more than one million people aged over 100 in the UK.

LIFE EXPECTANCY INCREASING

With life expectancy increasing at a rapid rate, you will probably live for longer than you think and, as such, your pension income will need to last longer. Therefore, it is essential to eke out as much income as possible from your retirement savings and, with interest rates at historical lows, this is no easy task.

It is important to remember that your pension income will not just be a function of the pension vehicle you choose – whether this is an annuity, income drawdown or another arrangement. You can also influence the income you receive in retirement by making clever use of different retirement strategies.

THREE RETIREMENT STRATEGIES TO CONSIDER

1. DEFER YOUR STATE PENSION

Retirement should be a gradual phasing in of income to free up spare time – it does not necessarily have to mean that you stop working or earning. There is no reason why you have to stop working or claim your State Pension when you reach State Pension age – currently 65 for men and 62 for women.

If you put off claiming your State Pension, you can either earn extra State Pension or benefit from a one-off lump sum payment. If you have not yet claimed your State Pension and you want to put off taking it up, you do not need to do anything. Those already drawing their State Pension, but wanting to stop claiming it to earn more income, will have to contact their pension centre.

It is, however, worth noting that the terms for deferring your State Pension are very different for those who reach State Pension age before 6 April 2016 compared to those who reach it afterwards. For those who reach State Pension age before 6 April 2016 (men aged 64 or more at April 2015 or women aged 62 or more at April 2015), the rate of deferral is very generous – 10.4% per annum plus the inflationary increases. In comparison, the lump sum alternative may be poor value for money.

For people reaching State Pension age after 6 April 2016, the rate of deferral at the time of writing this article had not been set but is expected to be 5% per annum plus inflation, and there will be no lump sum alternative.

2. USE EMPLOYMENT TO TOP UP YOUR PENSION

If you are employed, there are a number ways in which you can top up your pension.

SALARY SACRIFICE

Salary sacrifice involves giving up some of your salary in exchange for payments into your pension. This will not only increase your pension contributions and overall pension fund but can also mean savings on income tax and National Insurance. You will receive tax relief, depending on the tax band you fall into.

It is, however, worth remembering that a reduction in your salary could impact your ability to secure a mortgage, as banks and building societies use income to decide on loan eligibility.

BONUS SACRIFICE

In a similar way to salary sacrifice, you can make potential tax savings by using bonus sacrifice to pay into your pension plan. If you are a high earner, chances are that you receive a basic salary as well as bonus payments. Typically, you will be offered the chance to sacrifice some of this bonus and instead have that money paid into your pension scheme.

This is arguably one of the most tax-efficient ways of getting extra money into your pension plan, since you are not taxed on the amount of bonus that you give up. Your total income is reduced and therefore you are only taxed on the income you actually receive. The part that goes into your pension is not taxed as it is instead an employer contribution. This means you save on income tax and National Insurance.

Furthermore, your employer will not pay National Insurance on the amount of bonus given up – usually at 13.8% – and if they wish, they can pass some or all of this saving back to you.

COMPANY SHARE PENSIONS

Those who hold shares in employer share schemes can place these within a Self-Invested Personal Pension (SIPP) and benefit from the tax relief. You can either sell the shares and invest proceeds into your SIPP or move the shares into the SIPP. Once the shares are transferred into a SIPP, any future growth and dividend payments will be tax-efficient.

3. BUILD IN INFLATION PROTECTION

If you are still saving for retirement, it is important that you keep increasing the amount you pay into your pension each year. If you don't, inflation means that your monthly contributions will be worth less every year.

If you expect inflation to rise, then consider investing your pension fund in higher-risk assets such as equities, as rising inflation will eat away at the more cautious investments such as cash, fixed interest and low-risk funds. You will have to take into consideration how many years it will be before you retire and whether you can afford to take the risk of investing in these assets.

If you are still saving for retirement, it is important that you keep increasing the amount you pay into your pension each year.

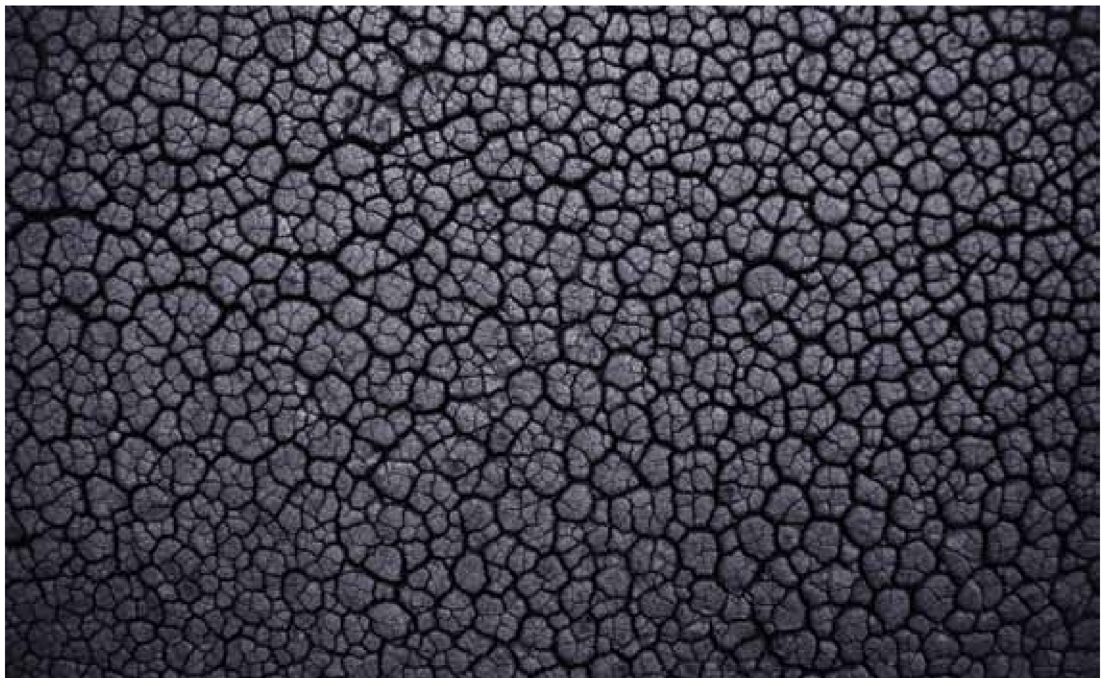
Once you reach the point of retirement, you can inflation-proof your income by opting for an inflation-linked annuity, although these usually have a low starting level of income.

Alternatively, you can look at using a drawdown arrangement, usually making use of a multi-asset approach to investment that aims to allow income to be withdrawn while maintaining the real value of your investments.

Under this approach, you won't have a guaranteed income, but you retain ownership and control of your assets while staying abreast of inflation if the investments perform well. However, it is sensible to make sure your essential expenses are covered with a source of secure income where possible.

CLOSER TO RETIREMENT

Retirement may be a long way off for you at the moment, but that doesn't mean you should forget about it, and as you get closer it makes sense to have a clearer idea of what you'll need to live on in the future and what your income might be.



RETIREMENT QUESTION TIME

We all look forward to stopping work, embarking on a new path and making the most of our new-found freedom. But with all the talk and concern about dwindling retirement funds and our shaky economy, many retirees and soon-to-be-retired boomers need to consider three very important questions, sooner rather than later.

Ask yourself these three questions when planning for your future retirement:

1. HOW LONG WILL I BE RETIRED FOR?

According to the Institute of Fiscal Studies, 58.5%[1] of workers haven't given any thought to how long their retirement could last. A 65-year-old can now typically expect to live for about another 20 years. That could mean you're retired for almost as long as you've been saving for retirement. Be clear when you want to stop working, but think of your pension savings as deferred pay and budget accordingly.

2. HOW MUCH DO I NEED TO INVEST?

Paying more into your pension may not necessarily be top of your to-do list. It's tempting to think it's something you need to worry about in the future. You need to be investing as much as you can for as long as you can to make every year count. Maximising tax allowances can also make retirement funds last longer. As well as contributing to your pension pot, you can use other savings and investments to help fund your retirement.

3. HOW WILL I STAY ON TRACK?

Once you're investing, it's also worth keeping sight of your retirement goals to make sure you're on track to meet them. 74% of under-45s with pensions have no idea what their pension pots are currently worth, and 79% say they don't know what income they are expecting when they retire. These figures suggest many people don't really know the true value of their pension until they are older and in the run-up to retirement, despite the fact that they are likely to be receiving annual pension statements. You should regularly review your pension.

Source data:
[1] All figures unless otherwise stated are from YouGov Plc. Total sample size was 2,018 adults, of which 1,361 have a pension. Fieldwork was undertaken between 9–12 August 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

With all the talk and concern about dwindling retirement funds and our shaky economy, many retirees and soon-to-be-retired boomers need to consider three very important questions, sooner rather than later.

The State Pension is based on your own contributions and in general you will not be able to claim on your spouse or registered civil partner's contributions at retirement or if you are widowed or divorced.

RETIREMENT

STATE PENSION CHANGES

Over half of the UK population is unaware of reforms to the State Pension and the impact that could have on them, according to recent research[1]. Among the 55 to 64-year-old age group, 32% are unaware of the changes.

A new single-tier, flat-rate State Pension is being introduced which will affect people reaching State Pension age from 6 April 2016 onwards. In May 2014, Parliament agreed the Pensions Act 2014.

STATE PENSION REFORMS:

- Introduction of a single-tier, flat-rate State Pension, which will replace the basic and additional pensions for people reaching State Pension age from 6 April 2016 onwards.

- Increases in the State Pension age from 66 to 67 between April 2026 and April 2028.

- Making provision for 5-yearly reviews of the State Pension age.

The study found 57% thought the new flat rate State Pension would be worth less than £150 per week – the weekly amount recently set by the government and due to come into effect in April 2016.

The new single-tier pension will only affect people reaching State Pension age from 6 April 2016 onwards. That is:

- Women born on or after 6 April 1953.
- Men born on or after 6 April 1951.

CURRENT STATE PENSION WILL CONTINUE

The current State Pension and benefit systems will continue for those who are already pensioners or who reach State Pension age before 6 April 2016. It's the date that you reach State Pension age that's important - not when you start to claim your pension. However, you may be able to make top-ups.

For people who are already receiving their pension or who will reach State Pension age before 6 April 2016, a new scheme starting in October 2015 will allow people to pay a new class of voluntary National Insurance (NI) contributions (called Class 3A).

ADDITIONAL STATE PENSION BOOST

This is intended to help people boost their additional State Pension by a maximum of £25 per week. The scheme will be open for a period of 18 months from October 2015. Anyone considering this will need to weigh up the costs of contributions with the likely increase to their pension income.

Pension Credit guarantee will continue to be available under the new system, but those who reach State Pension age on or after 6 April 2016 will not be able to claim savings credit. Housing Benefit will continue (but will be incorporated into Pension Credit in the future) and the system of Council Tax support will also remain.

'MARRIED WOMAN'S CONTRIBUTIONS'

The State Pension is based on your own contributions and in general you will not be able to claim on your spouse or registered civil partner's contributions at retirement or if you are widowed or divorced. However, if you're widowed you may be able to inherit part of your partner's additional State Pension already built up. There is also provision under the new system for womenwho paid the reduced rate 'married woman's contributions' to use these contributions towards the new State Pension.

If you are not on course to receive a full State Pension on your own contributions you may be able to increase your entitlement – for example by paying voluntary NI contributions or if you are eligible for credits.

UNDERESTIMATING STATE PENSION VALUES

Although most of the respondents underestimated the value of their State Pension and admitted to not knowing the details of the reforms, two thirds of men and women regard it as important to their retirement income planning.

Of those surveyed, just under half of 55 to 64-year-olds were unsure as to whether or not they would be better off under the new State Pension system compared to the current one.

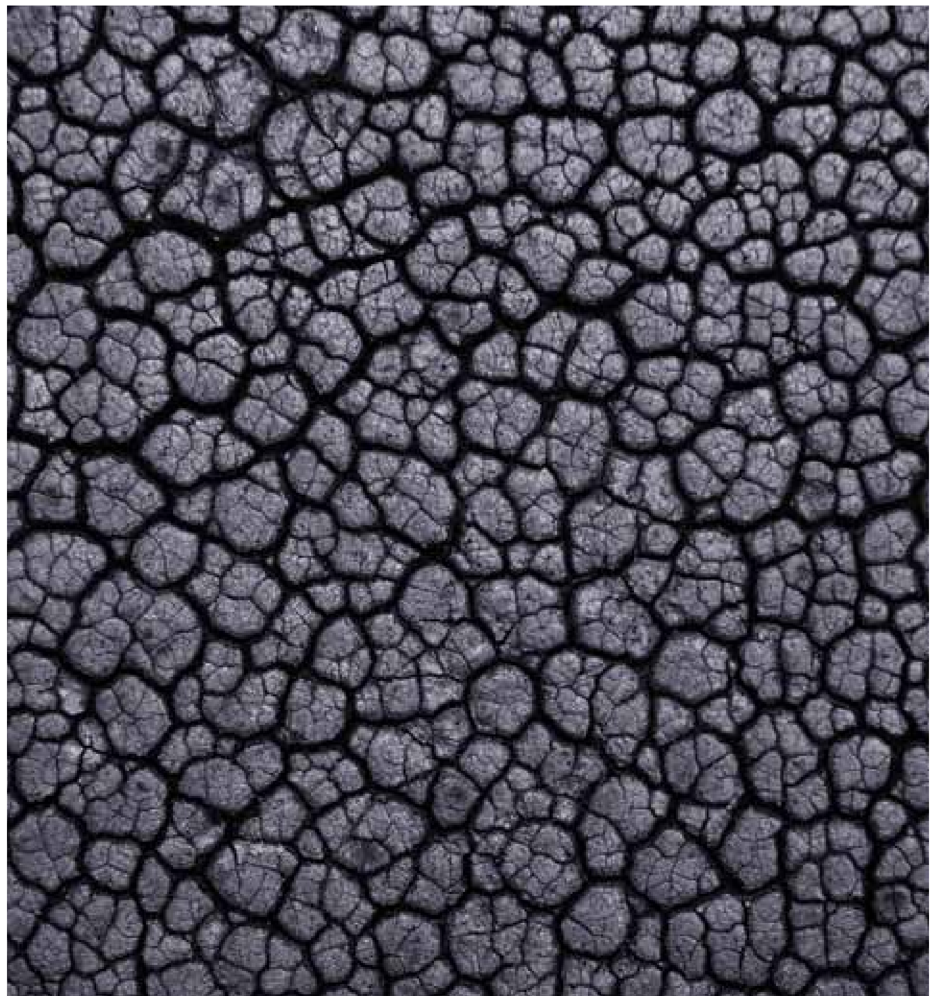
KEY PART OF GOVERNMENT REFORMS

The flat rate State Pension is a key part of government reforms to the UK's retirement planning and will benefit savers by demonstrating the value of pension saving. But just under half of those aged between 55 and 64 who are about to retire have no understanding of whether or not they will be better off.

Women are more likely not to know the detail of the flat rate pension reforms – which require people to have worked and paid National Insurance contributions for 35 years – than men. Around 57% of women admitted to not knowing the details, compared with 43% of men.

Source data:
[1] Research for MetLife conducted online between 21–22 May 2014 among a nationally representative sample of 2,038 adults by independent market research firm ICM.

The flat rate State Pension is a key part of government reforms to the UK's retirement planning and will benefit savers by demonstrating the value of pension saving.



RETIREMENT

RETIREMENT INCOME OPTIONS

From 6 April 2015 taking a lump sum cash option provides you with a greater flexible arrangement regardless of the size of your defined contribution pension schemes. You'll be able to take the entire fund as a lump sum, if you wish.

From 6 April 2015, you will be given total freedom over how you withdraw pension money.

ANNUITIES

Those who want to guarantee an income for life will still be able to purchase an annuity. If you need to provide an income for yourself and possibly your spouse or partner in your retirement, then the choices you make may depend on the investment risks you are prepared to take. Generally people are more cautious in retirement as they have limited ability, if any, to make up any investment losses from future earnings, whilst requiring a continued income.

Annuities still have a place within the new retirement income world as many of people will still require the certainty and guaranteed income that an annuity provides. It is very important for you to choose the right annuity for you as once you have bought your annuity, you can not change your mind.

A conventional lifetime annuity is the only option which provides a guaranteed income for the rest of your life, no matter how long you live.

If you have health or lifestyle conditions you maybe eligible for an enhanced annuity. This means that if you smoke or take regular medication for high blood pressure, high cholesterol or more serious medical problems your income could be significantly higher than a standard annuity.

A conventional lifetime annuity income is guaranteed regardless of changes in the financial markets, how long you live and changes in your circumstances. They're easy to understand and don't need to be reviewed or managed on a regular basis, which usually incurs ongoing fees or charges.

From 6 April 2015 taking a lump sum cash option provides you with a greater flexible arrangement regardless of the size of your defined contribution pension schemes. You'll be able to take the entire fund as a lump sum, if you wish. The option of a tax-free lump sum remains and the balance of your pension fund taken as a lump sum will be taxed at your marginal tax rate.

If you take your entire fund as a lump sum before considering the impact on your personal circumstances could result in a significant tax bill.

INCOME DRAWDOWN

Income drawdown is currently the main alternative to purchasing an annuity with your pension savings and in many ways it is a more flexible option than buying an annuity. It allows you to draw a variable income directly from your pension pot, so you can choose where to invest and your income will rise and fall depending on your investment performance.

Income drawdown also offers you the chance to take some income from your pension whilst it remains invested. This means there is the opportunity for these savings to continue to grow over time if your investments perform well. However, if the value of your investments falls, you may not be in a position to top up your savings – leaving you with less money to support you in your retirement.

By taking an income, you may also erode your pension pot which could leave you with a smaller pot to purchase an annuity in the future if this is what you want to do. This makes income drawdown inherently more risky.

Until 6th April 2015 there are two kinds of income drawdown: capped drawdown and flexible drawdown. In both cases, any income you take from your pension income is taxed as earned income under PAYE and depends on individual circumstances and may change in the future.

CAPPED DRAWDOWN

Capped drawdown is the more common type of the two types of income drawdown. There is:

- An upper limit on the income you can take.

- No minimum level of income is required – so your fund can remain invested for as long as you like without drawing any income at all.

FLEXIBLE DRAWDOWN

Flexible drawdown is a way of accessing your pension savings flexibly. There are no limits on the income you can draw, but you must be able to show you are already receiving other pension income of at least £12,000 a year. This minimum income level includes state pension benefits, salary-related pensions, lifetime annuities and scheme pensions.

It allows you to draw out as much as you like. You can even take the whole lot as a lump sum, if you wish. The first 25% of the pension fund is usually tax-free, and the rest is taxed as income, at your highest marginal rate.

After 6th April 2015 the income restrictions on income drawdown will be removed. There is also no minimum income requirement so if you have other sources of income you don't have to take anything out of your pension at all in the first few years.

Some people choose to use income drawdown at the start of their retirement and then switch to an annuity later on.

Some people choose to use income drawdown at the start of their retirement and then switch to an annuity later on. If you are considering this it's worth remembering that if you are drawing income out of your fund and stock markets don't perform well you could end up with a smaller fund when you come to buying your annuity. Even if stock markets perform relatively well, if you are maximising your income then this may impact the size of your pension pot when it comes to purchasing an annuity.

RETIREMENT

55% PENSION TAX CHARGE ABOLISHED

The Chancellor, George Osborne on 29 September 2014 announced that from 6 April 2015 individuals will have the freedom to pass on their unused defined contribution pension to any nominated beneficiary when they die, rather than paying the 55% tax charge which currently applies to pensions passed on at death.

The new rules will simplify the existing regime that applies to untouched defined contribution pension pots of people aged 75 or over, and to pensions from which money has already been withdrawn.

Around 320,000 people retire each year with defined contribution pension savings; these people will no longer have to worry about their pension savings being taxed at 55% on death.

DRAWING PENSION MONEY

This means that from 6 April 2015, if a person who dies is 75 or over, the person who receives the pension pot will only pay their marginal tax rate as they draw money from the pension.
If someone aged under 75 dies, the person who receives the pot is able to take money from the pension without paying any tax. Beneficiaries will be able to access pension funds at any age and the lifetime allowance, currently £1.25 million, will still apply.

PASSED PENSION BENEFITS

Those who are passed pensions from anyone who dies before 6 April 2015 can still benefit so long as the payment is delayed until after that point. The change is another positive move for UK savers, building on the flexibility outlined in Budget 2014 and giving people another avenue of financial planning using their pension pots. The change will give people more security about keeping money in their pension scheme, perhaps to pay for increased costs in later life.

MORE APPEALING TRANSFERS

The change should also make transfers from defined benefit (DB) to defined contribution (DC) schemes more appealing for those with ill health, as well as for people who will see their pension more as part of their family wealth. But there do still remain risks for the elderly, which need to be thought through. If they look to use the new flexible opportunities to draw down benefits rather than take out an annuity, they could be at risk of breaching the lifetime allowance when they are older and suddenly suffering a 55% tax rate which they cannot then avoid.
There still needs to be a review of unintended consequences.

Those who are passed pensions from anyone who dies before 6 April 2015 can still benefit so long as the payment is delayed until after that point.

RETIREMENT

8 STEPS TO A BRIGHTER RETIREMENT

1. From 6 April 2015, you can use your pension savings in any way you like. The first 25% can be taken as tax-free cash and the remainder used as you wish (all income or capital withdrawals subject to your marginal rate of tax at the time).

2. Consider when you want or need to take your benefits – from both state and any private pensions. You don't have to use them at 'traditional' retirement ages or when you stop working.

3. If you have a small pension pot (individually below £10,000 or up to three valued at less than £30,000), you may be able to take the whole pot as a lump sum under the current 'triviality' rules (from 6 April 2015, you will be able to take the whole pension as cash, subject to marginal tax rates at the time).

4. If an income is important to you, consider all the different options available to you, such as an annuity, an investment-linked annuity and income drawdown. Each of these comes with different risks – income from drawdown or an investment-linked annuity could fall in future.

5. Consider the 'cost of delay' – if you are looking for a guaranteed lifetime income, then an annuity could be your safest option. By delaying any decision until next year, you are losing out on income this year, which could take many years to make up.

6. Think about how much flexibility you need over your income, bearing in mind you may be in retirement for 20 plus years, and if you want to protect your spouse or partner when you die.

7. With annuities, the income is guaranteed but may come with the risk of inflation, which means the income you receive may not buy as much in the future. You can protect your income from inflation but this comes at a cost.

8. If you buy an annuity, don't automatically purchase it from the company you saved with. Make sure you shop around other providers, giving full information about your health and lifestyle – this can help you get a substantially bigger income.

RETIREMENT

SELF-INVESTED PERSONAL PENSIONS

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss.

FREEDOM OF CHOICE

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

SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf. Individuals have to appoint a trustee to oversee the operation of the SIPP but, having done that, the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

MORE CONTROL

You can choose from a number of different investments, unlike other traditional pension schemes, which may give you more control over where your money is invested. A SIPP offers a range of pension investments including: cash, equities (both UK and foreign), gilts, unit trusts, OEICS, hedge funds, investment trusts, real estate investment trusts, commercial property and land, and traded endowment plans and options.

> *SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.*

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

TAX BENEFITS

During the tax year 2014/15, you can invest up to 100 per cent of your UK earnings in a SIPP or £40,000 – whichever is greater. You'll receive tax relief on all your contributions during that year.

OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income and, in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are often higher than those of a normal pension fund.

The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.

RETIREMENT

CONSOLIDATING PENSIONS

Many older plans from pension providers that have been absorbed into other companies have pension funds which are no longer open to new investment, so-called 'closed funds'.

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

KEEPING TRACK OF YOUR PENSION PORTFOLIO

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

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

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

- Bring all your pension investments into one, easy-to-manage wrapper.

- Identify any underperforming and expensive investments with a view to switching these to more appropriate investments.

- Accurately review your pension provision in order to identify whether you are on track.

WHY CONSOLIDATE YOUR PENSIONS?

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

It's vital that you review your existing pensions to assess whether they are still meeting your needs – some with-profits funds may not penalise all investors for withdrawal, so a cost-free exit could be possible.

FOCUSING ON FUND PERFORMANCE

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

ECONOMIC AND MARKET MOVEMENTS

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

LACK OF THE LATEST INVESTMENT TECHNIQUES

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

SIGNIFICANT EQUITY EXPOSURE

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

PROTECTION

WEALTH PROTECTION

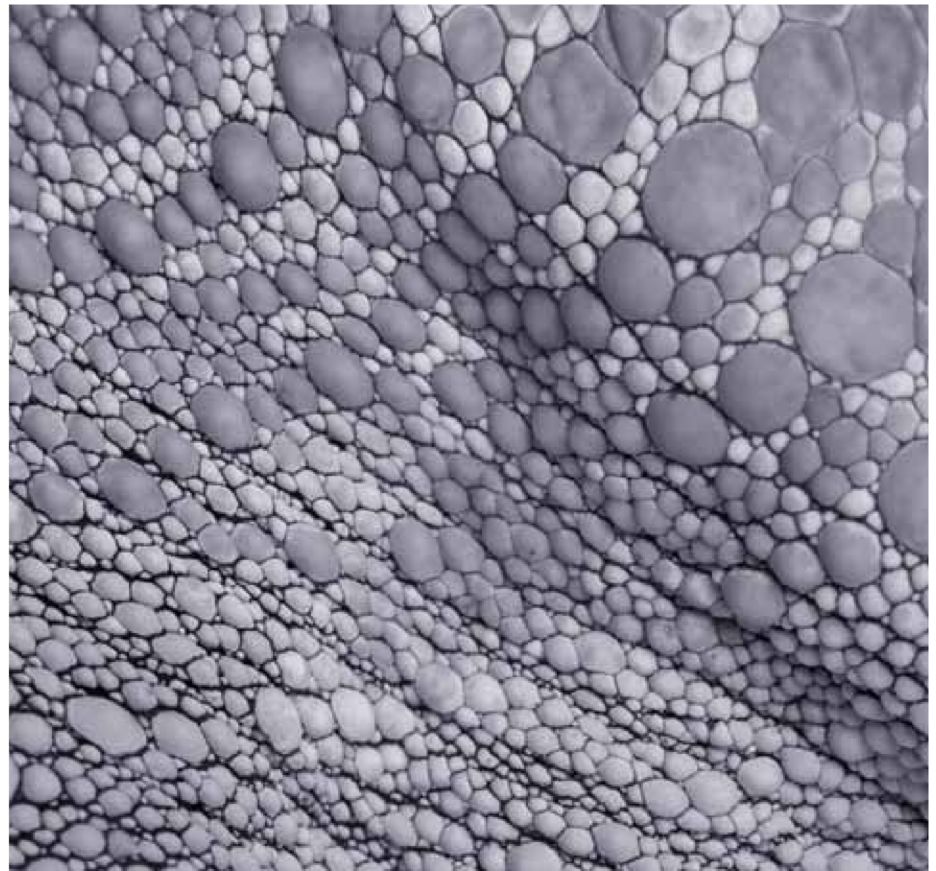
What would happen to you and your family in the event of unforeseen circumstances such as you losing your job, having a serious illness or dying prematurely? It's essential to make sure that you have adequate protection in place for you, your family and any dependants.

Everyone's protection requirements will differ and there's not a 'one size fits all' solution. If life takes a turn for the worse due to an accident, illness, or even death, it could mean financial hardship for you and anyone dependent on you.

Planning your legacy and passing on your wealth is another area that requires early planning. Benjamin Franklin was right when he said the only two certainties in life were 'death and taxes'. And when it comes to Inheritance Tax, the two things collide. But why should HM Revenue & Customs take some of your assets when you die – especially since you have probably already paid income tax on the money earned to buy them and capital gains tax on any profits.

To discuss your requirements or for further information, please contact us – we look forward to hearing from you.

Everyone's protection requirements will differ and there's not a 'one size fits all' solution.



PROTECTION

SAFEGUARDING YOUR FAMILY'S LIFESTYLE

We all want to safeguard our family's lifestyle in case the worst should happen. But only a quarter (24%) of adults in the UK with children under 16 have any form of financial protection, a significant drop from 31% in 2013, according to research from the Scottish Widows Protection Report. With over half (54%) of this group admitting that their savings would last just a couple of months if they were unable to work, a significant protection gap exists for families in the UK.

REAL CHALLENGES FOR HOUSEHOLDS

Almost half of households (46%) with children under 16 are now also reliant on two incomes, and a further 14% of this group state that parents or grandparents are dependent on their income. There would be real challenges for these households if one income were lost.

Childcare costs are another area that can be impacted by the loss of one parent's income, equally so if grandparents could not continue to provide support. With more parents working and with increasing childcare costs, up 27% since 2009[1], 40% of those with children under 16 rely on their parents to help with free childcare.

REPLICATING THE MODERN FAMILY

While some government support is available in times of need, the current state bereavement benefits and support system is based on marriage or registered civil partnerships and doesn't yet replicate the modern family we see today. Unmarried couples and long-term partners are left in a welfare grey area – particularly when it comes to looking after their dependent children following the death of a parent.

People are realistic about the support available, with only 1% of those with children under 16 believing the state would look after their family if something were to happen to them. 45% of this group also believe that individuals should take personal responsibility for protecting their income through insuring against the unexpected happening to themselves or a loved one.

Do you have in place a robust protection plan that will adequately support your family and safeguard their future? If not, we can help you put in place a solution designed specifically to your unique requirements to protect you and your family.

Source data:
[1] Family and Childcare Trust – Childcare Costs Survey, 2014.

> *People are realistic about the support available, with only 1% of those with children under 16 believing the state would look after their family if something were to happen to them.*

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.

PROTECTION

MAKING THE RIGHT DECISION

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

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

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

LIFE ASSURANCE OPTIONS

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

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

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

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

SIMPLY HAVING LIFE ASSURANCE MAY NOT BE SUFFICIENT

For instance, if you contracted a near-fatal disease or illness, how would you cope financially? You may not be able to work and so lose your income, but you are still alive so your life assurance does not pay out.

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 registered civil partnerships.

PROTECTION

CRITICAL ILLNESS PROTECTION

Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover.

The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. But critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but some overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

THE RIGHT PEACE OF MIND

You really need to find the right peace of mind when faced with the difficulty of dealing with a critical illness. Critical illness assurance pays a tax-free lump sum on diagnosis of any one of a list of specified serious illnesses, including cancer and heart attacks. The good news is that medical advances mean more people than ever are surviving life-threatening conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or use it for any other purpose.

It's almost impossible to predict certain events that may occur within our lives, so taking out critical illness cover for you and your family, or if you run a business or company, offers protection when you may need it more than anything else.

EXCLUSIONS AND LIMITATIONS

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

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

CORE SPECIFIED CONDITIONS

All policies should cover seven core specified conditions. These are cancer, coronary artery bypass, heart attack, kidney failure, major organ transplant, multiple sclerosis and stroke. They will also pay out if a policyholder becomes permanently disabled as a result of injury or illness.

But not all conditions are necessarily covered. The Association of British Insurers (ABI) introduced a set of best practice guidelines. In May 2003, the ABI introduced other measures. These included conditions such as non-invasive skin cancers and less advanced cases of prostate cancer. Tumours that have not yet invaded the organ or tissue, and lymphoma or Kaposi's sarcoma in the presence of HIV, are excluded.

There are also more restrictive conditions for heart attacks. There has to be evidence of typical chest pain, or changes in the electrocardiogram (ECG), for example, if a claim is to be successful. Cardiac conditions, such as angina, will not be covered.

LIFESTYLE CHANGES

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

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

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

SURVIVAL PERIOD

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

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

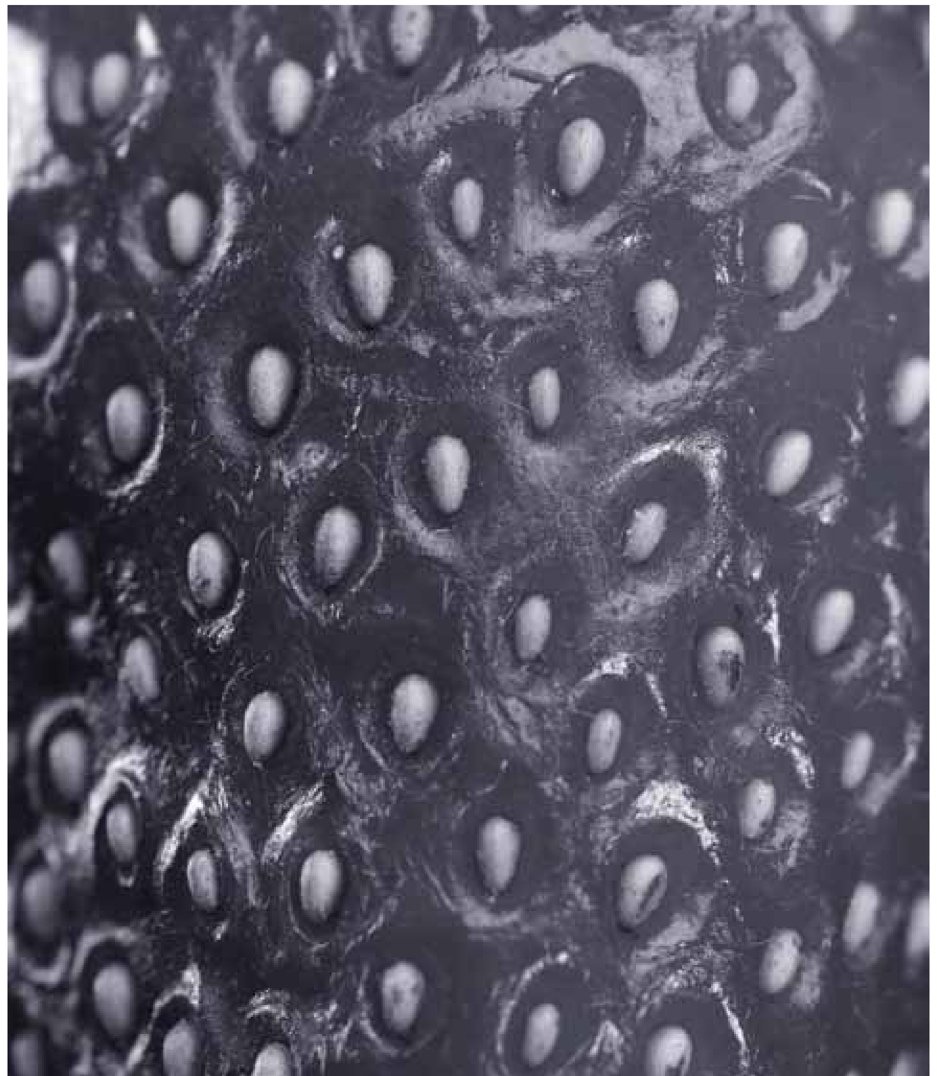
Permanent total disability is usually included in the policy. Some insurers define 'permanent total disability' as being unable to work as you normally would as a result of sickness, while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of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

GETTING IT COVERED

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

While life assurance is often the priority of those with dependant family members, critical illness cover can be vital if you are the sole breadwinner, rely heavily on your income or are single. It provides a welcome financial boost at a time of emotional stress and financial hardship.

Before you take out critical illness cover, you should obtain professional financial advice to make sure that it is right for you and offers sufficient cover.



If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell.

The self-employed can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out.

PROTECTION

INCOME PROTECTION INSURANCE

Protecting your income is essential, given the limited government support available. How would you pay the bills if you were sick or injured and couldn't work? Income protection insurance, formerly known as 'permanent health insurance', is a financial safety net designed to help protect you, your family and your lifestyle in the event that you cannot work and cope financially due to an illness or accidental injury preventing you from working. Most of us need to work to pay the bills.

TAX-FREE MONTHLY INCOME

Without a regular income, you may find it a struggle financially, even if you were ill for only a short period, and you could end up using your savings to pay the bills. In the event that you suffered from a serious illness, medical condition or accident, you could even find that you are never able to return to work. Few of us could cope financially if we were off work for more than six to nine months. Income protection insurance provides a tax-free monthly income for as long as required, up to retirement age, should you be unable to work due to long-term sickness or injury.

By law, your employer must pay most employees statutory sick pay. This will almost certainly be a lot less than your full earnings. Few employers pay for longer periods. If you find yourself in a situation where you are unable to return to work, your employer could even stop paying you altogether and terminate your employment. After that, you would probably have to rely on state benefits. Some employers arrange group income protection insurance for their employees, which can pay out an income after the statutory sick period.

BEFORE-TAX EARNINGS

Income protection insurance aims to put you back to the position you were in before you were unable to work. It does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost, less an adjustment for state benefits you can claim. This is usually translated into a maximum of 50 per cent to 65 per cent of your before-tax earnings.

If you are self-employed, then no work is also likely to mean no income. However, depending on what you do, you may have income coming in from earlier work, even if you are ill for several months. The self-employed can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out. A typical basis for payment is your pre-tax share of the gross profit, after deduction of trading expenses, in the 12 months immediately prior to the date of your incapacity. Some policies operate an average over the last three years, as they understand that self-employed people often have a fluctuating income.

The cost of your cover will depend on your gender, occupation, age, state of health and whether or not you smoke.

MOST COMPREHENSIVE DEFINITIONS

The 'occupation class' is used by insurers to decide whether a policyholder is able to return to work. If a policy will pay out only if a policyholder is unable to work in 'any occupation', it might not pay benefits for long – or indeed at all. The most comprehensive definitions are 'Own Occupation' or 'Suited Occupation'. 'Own Occupation' means you can make a claim if you are unable to perform your own job; however, being covered under 'Any Occupation' means that you have to be unable to perform any job, with equivalent earnings to the job you were doing before not taken into account.

You can also usually choose for your cover to remain the same (level cover) or increase in line with inflation (inflation-linked cover):

- **Level cover** - with this cover, if you made a claim the monthly income would be fixed at the start of your plan and does not change in the future. You should

remember that this means, if inflation eventually starts to rise, that the buying power of your monthly income payments may be reduced over time.

- **Inflation-linked cover** - with this cover, if you made a claim the monthly income would go up in line with the Retail Prices Index (RPI).

When you take out cover, you usually have the choice of:

- **Guaranteed premiums** - the premiums remain the same all the way throughout the term of your plan. If you have chosen inflation-linked cover, your premiums and cover will automatically go up each year in line with RPI.

- **Reviewable premiums** - this means the premiums you pay can increase or decrease in the future. The premiums will not typically increase or decrease for the first five years of your plan but they may do so at any time after that. If your premiums do go up, or down, they will not change again for the next 12 months.

How long you have to wait after making a claim will depend on the waiting period. The longer the waiting period you choose, the lower the premium for your cover will be, but you'll have to wait longer after you become unable to work before the payments from the policy are paid to you. Premiums must be paid for the entire term of the plan, including the waiting period.

Depending on your circumstances, it is possible that the payments from the plan may affect any state benefits due to you. This will depend on your individual situation and what state benefits you are claiming or intending to claim. If you are unsure whether any state benefits you are receiving will be affected, you should seek professional financial advice.

The longer the waiting period you choose, the lower the premium for your cover will be, but you'll have to wait longer after you become unable to work before the payments from the policy are paid to you.

PROTECTION

INHERITANCE TAX

Inheritance Tax in the UK is a subject that was once something that only affected very wealthy people. It maybe one of life's unpleasant facts but today it affects more people than ever, partly due to the rise in the property market that has not been matched by a corresponding rise in the Inheritance Tax threshold.

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

The 2014/15 threshold is currently £325,000 – any assets above this level are taxed at 40%. Married couples and registered civil partners have a joint estate of £650,000 before any Inheritance Tax is payable. The threshold usually rises each year but has been frozen at £325,000 for tax years up to and including 2017/18. Unmarried partners, no matter how long-standing, have no automatic rights under the Inheritance Tax rules.

SUBSTANTIAL TAX LIABILITY

Without proper Inheritance 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 – even if they are overseas.

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

PLANNING TO REDUCE YOUR FAMILY'S INHERITANCE TAX BILL

GIFTING IT AWAY

You are allowed to make a number of small gifts each year without creating an Inheritance Tax liability. Remember, each person has their own allowance, so the amount can be doubled if each spouse or partner uses their allowances. You can also make larger gifts but these are known as Potentially Exempt Transfers (PETs) and you could have to pay Inheritance Tax on their value if you die within seven years of making them.

Any other gifts made during your lifetime which do not qualify as a PET will immediately be chargeable to Inheritance Tax and these are called Chargeable Lifetime Transfers (CLT).

The 2014/15 threshold is currently £325,000 – any assets above this level are taxed at 40%. Married couples and registered civil partners have a joint estate of £650,000 before any Inheritance Tax is payable.

GIFT WITH RESERVATION

If you make a gift to someone but keep an interest in it, it becomes known as a 'Gift With Reservation' and will remain in your estate for Inheritance Tax purposes when you die. For example, if you gave your son or daughter your house, but continued to live in it without paying a market rent, it would be considered a Gift With Reservation. But if you continued to live there and paid them a market rent each month, it would become a Potentially Exempt Transfer and move out of the Inheritance Tax net provided you survived for seven years. However, they would be liable to pay income tax on the rent he received.

Where the total amount of non-exempt gifts made within seven years of death plus the value of the element of your estate left to non-exempt beneficiaries exceeds the nil rate threshold, Inheritance Tax is payable at 40% on the amount exceeding the threshold.

This reduces to 36% if the estate qualifies for a reduced rate as a result of a charity bequest. In some circumstances, Inheritance Tax can also become payable on the lifetime gifts themselves – although gifts made between three and seven years before death could qualify for taper relief, which reduces the amount of Inheritance Tax payable.

EXEMPT GIFTS

Some gifts you make during your lifetime are exempt from Inheritance Tax. If you make a transfer to your spouse, this will always be exempt as long as they have a permanent UK home. These are the main exemptions:

ANNUAL EXEMPTION

Up to £3,000 in a tax year. If you give less

than £3,000 in one year, you can carry the balance forward to the next year.

SMALL GIFTS EXEMPTION

Gifts up to a total of £250 to each person in any tax year.

MARRIAGE OR REGISTERED CIVIL PARTNERSHIP GIFTS

You can give each of your children up to £5,000, each grandchild up to £2,500 and any other relative or friend up to £1,000.

NORMAL EXPENDITURE OUT OF INCOME GIFTS

If you can make gifts from surplus income, these could be exempt from Inheritance Tax. You need to establish a repetitive pattern of gifting and leave yourself enough income to maintain your standard of living.

GIFTS FOR THE MAINTENANCE OF THE FAMILY

This includes gifts to a current or former spouse or civil partner – and gifts for the maintenance, education or training of your child.

GIFTS TO CERTAIN INSTITUTIONS

Includes UK charities, certain political parties, national museum, universities, the National Trust and some other organisations.

Your executors or legal personal representatives typically have six months from the end of the month of death to pay any Inheritance Tax due. The estate can't pay out to the beneficiaries until this is done. The exception is any property, land or certain types of shares, where the Inheritance Tax can be paid in instalments. Then your beneficiaries have up to 10 years to pay the tax owing, plus interest.

TAPER RELIEF

Taper relief applies where tax, or additional tax, becomes payable on your death in respect of gifts made during your lifetime. The relief works on a sliding scale. The relief is given against the amount of tax you'd have to pay rather than the value of the gift itself. The value of the gift is set when it's given, not at the time of death.

WRITE A WILL

This is the first step in making effective plans, whilst making a Will on its own does not reduce Inheritance Tax a Will makes sure your assets go to the people you choose quickly and with minimum effort. It also helps you to identify areas where you could take other action. If you die without a Will, your estate is divided out according to a pre-set formula and you have no say over who gets what and how much tax is payable.

You need to keep your Will up-to-date. Getting married, divorced or having children are all key times to review your Will. If the changes are minor, you could add what's called a codicil to the original Will. This is a document which can have the effect of making small amendments to your original Will.

Your executors or legal personal representatives typically have six months from the end of the month of death to pay any Inheritance Tax due. The estate can't pay out to the beneficiaries until this is done.

TRUSTS

Many people would like to make gifts to reduce Inheritance Tax but are concerned about losing control of the money. This is where trusts can help. The rules changed in 2006 making some of them less tax effective, as a small minority will require you to pay Inheritance Tax even before you have died, but if appropriate they should still be considered.

LIFE COVER

If you don't want to give away your assets while you're still alive, another option is to take out life cover, which can pay out an amount equal to your estimated Inheritance Tax liability on death. Make sure you write the policy in an appropriate trust, so that it pays out outside your estate.

Policies written on a joint life second death basis – paying out when both of the couple are dead – can be the most cost efficient way of mitigating an Inheritance Tax liability.

ON YOUR DEATH

When you die, your estate has to be distributed one way or another. If you have a Will, your executors have to gain a Grant of Probate in England and Wales or Northern Ireland (a Grant of Confirmation in Scotland). If there's no valid Will, or the named executors in the Will are unwilling or unable to carry out their duties, a Grant of Letters of Administration is needed. This is known as dying intestate.

WHAT COULD HAPPEN IF YOU DON'T WRITE A WILL?

The government lays down strict guidelines on how money is to be paid out if you die without making a Will. These could mean that a long-term unmarried partner ends up receiving nothing and the Crown gets all your estate.

HOW MUCH TAX SHOULD BE PAID?

In most cases, Inheritance Tax 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. Inheritance 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 installments have been paid, the outstanding amount must be paid. The Inheritance Tax threshold in force at the time of death is used to calculate how much tax should be paid.

PROTECTION

NEW INTESTACY RULES INCREASE ENTITLEMENTS FOR SURVIVING SPOUSES AND REGISTERED CIVIL PARTNERS

Significant changes to existing intestacy rules came into force on 1 October 2014 in England and Wales, with the aim of making things simpler and clearer. The consequences could be far-reaching for you and your loved ones, and while there are increasing entitlements for surviving spouses and registered civil partners, the changes highlight the importance of making a Will to ensure your wishes are carried out.

RADICAL RULE CHANGES

From 1 October 2014, the Inheritance and Trustees Powers Act 2014 radically alters the way in which the assets of people who die intestate are shared among their relatives. The biggest change will affect married couples or registered civil partnerships where there are no children. In the past, the spouse received the first £450,000 from the estate, with the rest getting split between the deceased's blood relatives. Under the new law, the surviving spouse will receive everything, with wider family members not receiving anything.

LIFE INTEREST CONCEPT ABOLISHED

Couples who have children will also be affected by the changes. Previously, the spouse of the deceased received the first £250,000 and a 'life interest' in half of the remainder, with the children sharing the other half. Under the new rules, the life interest concept has been abolished, with the surviving married partner receiving the first £250,000 and also half of any remainder. The children will receive half of anything above £250,000 and will have to wait until they are 18 to access any funds.

From 1 October 2014, the Inheritance and Trustees Powers Act 2014 radically alters the way in which the assets of people who die intestate are shared among their relatives.

NO PROTECTION FOR COUPLES

These changes go some way to improving the position for married couples and registered civil partners. However, they still leave couples who are not married or in a registered civil partnership with no protection. Where an individual in an unmarried couple dies without a Will, their partner is not entitled to receive any money from their estate.

DISTRIBUTING ASSETS TAX-EFFICIENTLY

The changes therefore highlight again how important it is to make a Will to ensure that your wishes are followed and that assets are distributed tax-efficiently. Wills are also often used to express a preference for who should act as guardians for minor children in the event that parents die.

If a person dies without leaving a Will, the chances are that the estate will be distributed in a way that the deceased would not have wanted. This can have very real and distressing consequences, as well as unanticipated inheritance tax costs.

PROTECTION

DO YOU KNOW YOUR INHERITANCE TAX NUMBERS?

£325,000
The first £325,000 value of your estate is called the 'Nil Rate Band' because although it is taxable to Inheritance Tax (IHT), it is taxed at 0% (tax year 2014/15).

40%
Currently, IHT is payable on death at this rate on the value of your net assets over £325,000 (tax year 2014/15).

7
The number of years you must survive if you give away large amounts of money or valuable assets while you are alive, otherwise HMRC will tax you for IHT as if you still owned them when you die (tax year 2014/15).

£3,000
Everyone has an 'Annual Exemption' for IHT of this amount every tax year (tax year 2014/15).

£5,000
If your children get married, you can give them or their new spouse a lump sum up to this value completely free of IHT (tax year 2014/15).

£650,000
When a married couple or registered civil partnership estate exceeds this amount, IHT will usually only be paid on the excess, provided the necessary claims are made to HMRC within the appropriate time limits (tax year 2014/15).

£2,500
If your grandchildren get married, you can give them or their new spouse a lump sum up to this value completely free of inheritance tax (tax year 2014/15).

A SHARED UNDERSTANDING OF YOUR WEALTH OBJECTIVES

We help individuals create, increase and protect their wealth. Our aim is to make the management of your wealth as effortless and efficient as possible. The service we offer is designed to build a shared understanding of your wealth objectives and to translate these ambitions into actions. To find out more, please contact us.

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