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JULY / AUGUST 2008

Let's get ethical

environmental and socially
responsible investment

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a quick guide to making
more of your money

Defined contribution Schemes

Guidance for trustees
and employers

Fund sectors

a guide to where your
money is being invested

The Pensions Act 2007

reform of the
pension's landscape

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Do you want to explore your personal finance options?

Tell us what you need?



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The Pensions Act 2007

REFORM OF THE PENSION'S LANDSCAPE

The Pensions Act 2007 put into law the reforms to the state pension system set out in the White Paper, Security in retirement: towards a new pension system that was published in May 2006. These reforms to the state pensions system covered the Basic State Pension and the State Second Pension.

The Act only applies to Great Britain but it is intended that Northern Ireland, which has its own pension's legislation, will make corresponding provision for its customers in due course.

KEY CHANGES

BASIC STATE PENSION (BSP)

- from 2010 the number of qualifying years needed to receive a full BSP will reduce from 39 for women and 44 for men to 30 years for both
- linking annual cost of living increases in BSP with earnings rather than prices.(subject to affordability and the fiscal position this will start in 2012 but, in any case, by the end of the next Parliament at the latest)

- changing the contribution conditions for BSP so that it is easier for everyone to build up some entitlement
- replacing Home Responsibilities Protection (HRP) with a new system of weekly credits for those caring for children up to the age of 12 and for those who spend at least 20 hours a week caring for severely disabled people;

STATE SECOND PENSION (S2P)

- from 2010 there will be national insurance credits for those with long-term disabilities and people with caring responsibilities so that they can build up some additional pension entitlement.

STATE PENSION AGE

- the state pension age will gradually increase between 2024 and 2046, to 68 for both men and women to reflect increasing longevity in society and make the state pension affordable in the long term.

“ From 2010 there will be national insurance credits for those with long-term disabilities and people with caring responsibilities so that they can build up some additional pension entitlement. ”

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Defined contribution schemes

GUIDANCE FOR TRUSTEES AND EMPLOYERS

“ Trustees have a duty to ensure that there is a process in place to convert the member's money purchase fund into a retirement income. ”

As part of its commitment to promoting the good running of defined contribution schemes, the Pensions Regulator has published the first of a planned series of good practice guidance for trustees and employers. The Retirement Options guidance will help employers and trustees ensure they have effective processes in place, and inform members so they are able to make the best possible choices on their retirement income.

The guidance covers Retirement Options and the open market option in occupational Defined Contribution (DC) schemes. This is a critical stage in the individual's retirement planning process where the member must take a decision. Unless the process works efficiently and the member gets the level of support that

they need, they may receive an inappropriate annuity or it may be poor value for money.

Trustees have a duty to ensure that there is a process in place to convert the member's money purchase fund into a retirement income. The Retirement Options guidance sets out good practice in key areas, and encourages trustees and employers of DC schemes to follow good practice likely to lead to informed decisions being taken and emphasise to members the advantages of obtaining financial advice.

Trustees must also ensure that members are aware of their right to exercise the open market option, where, instead of the scheme's process, they use their fund to buy an annuity from an insurance company of their choice. Shopping around for an annuity can often produce a higher pension income and the decision to purchase an annuity is irreversible, so it is important that members are able to make an informed choice.

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Strategic direction for the next three years

REGULATOR SETS OUT VISION FOR PENSIONS

The Pensions Regulator has set out its vision of the pension's landscape, strategic direction and outcomes to be achieved during the next three years.

The plan highlights the progress made by the regulator in the building and development of the organisation, systems, culture and processes.

During the next three years commencing from 2008 to 2011 the regulator plans to continue to meet its objectives, delivering against the challenges and core themes set out in the medium term strategy to strengthen defined benefit scheme funding, completing the third year of the tri-annual scheme funding review (objectives):

- improve governance of work-based pensions, influencing behaviours to improve governance standards;
- reduce risks to members of defined contribution schemes, developing and implementing DC regulation approach; and
- deliver effective risk-based regulation, sustaining continuous improvement.

The Pensions Regulator plans to meet the emerging challenges arising from changes in the pension's landscape, such as the government's pension's reform agenda.

Company pension schemes

TRUSTEES MUST BE KEPT INFORMED

As an employer, you are responsible for providing the trustees of your company pension scheme and their advisers with the information that they need to carry out their duties.

“If you do not yet provide a pension scheme, it is important to check if you are legally required to offer one to your employees.”

The Pensions Regulator has a set of specific objectives:

- to protect the benefits of members of work-based pension schemes;
- to promote good administration of work-based pension schemes; and
- to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund.

In order to identify and reduce the risk to members' benefits, the Pensions Regulator requires a range of information about pension schemes and employers. If you provide a scheme, as an employer, you must:

Provide any updates to your scheme, for instance a change in membership numbers;

Complete a scheme return - this provides a wide range of information about schemes, including details of membership, sponsoring employers, trustees, advisers, administration, funding and investment.

Ensure that trustees have sufficient information about your company to be able to provide up-to-date, accurate details to the regulator.

- Pay employees' contributions to the scheme within 19 days from

the end of the month in which they were deducted from pay;

- Pay your own contributions in line with the schedule of contributions; and
- Advise of any delays, for example with paying contributions.

If you fail to pay contributions as described above, and the failure is likely to be materially significant, the Pensions Regulator will expect to receive a report from the trustees or scheme managers. As an employer, you will need to liaise with trustees in a number of areas.

If you do not yet provide a pension scheme, it is important also to check if you are legally required to offer one to your employees. The Welfare Reform and Pensions Act 1999 requires employers to offer their relevant employees access to at least a stakeholder pension scheme, unless they are exempt.

It is also vital for trustees to have access to a basis of pension's knowledge as they must be able to demonstrate that they have the knowledge and understanding required to carry out their role effectively.

Where scheme trustees are also your employees, you must give them sufficient paid time off during working hours to carry out their

duties as trustees and undertake trustee training.

The Pensions Regulator has a range of powers that enables them to meet their objectives. Their powers fall into three broad categories:

- Investigating schemes
- Putting things right
- Acting against avoidance

The Pensions Regulator's codes of practice and guidance give practical guidelines on the requirements of pension's legislation. The codes set out the standards of conduct and practice expected of those involved in running and providing pension schemes. Those standards reflect how a well-run pension scheme would choose to meet the relevant requirements.

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Pension Credit

GUARANTEES FOR THE OVER 60'S

Pension Credit is an entitlement for people aged 60 or over living in Great Britain. This could mean extra money for you every week. Pension Credit guarantees everyone aged 60 and over an income of at least:

- £124.05 a week if you are single
- £189.35 a week if you have a partner

Also, if you or your partner are 65 or over you may be rewarded for saving for your retirement, up to:

- £19.71 if you are single
- £26.13 a week if you have a partner

If you apply for Pension Credit and are eligible, you may receive a payment backdated for up to 12 months from the day you were first entitled to the date you first applied.

From 6 October 2008, there is a proposal to change this period from twelve months to three months. If you want to apply for more than three months in the past, you will need to make sure that you send your application before 6 October 2008.

To apply for Pension Credit, you must be at least 60 or within four months of your 60th birthday. It does not matter if your partner is under 60.

Partner is defined as your husband, wife or civil partner, or the person you live with as if you are married to them or as if you are in a civil partnership with them.

From 2010 the age from which you can get Pension Credit will gradually increase. This will be in line with the State Pension age becoming 65 for women as well as men by 2020.

The State Pension

YOUR QUESTIONS ANSWERED

Q: What is the State Pension?

A: The State Pension is paid to entitled people who claim it having reached State Pension age. It is based on National Insurance (NI) contributions and it is made up of different elements.

Q: What is the State Pension age?

A: The State Pension age is currently 65 for men and 60 for women born on or before 5 April 1950. The State Pension age for women will increase gradually from 2010, so that by 2020 it will be 65.

The increase in the State Pension age will not affect women born on or before 5 April 1950. Women born between 6 April 1950 and 5 April 1955 (inclusive) will have a State Pension age between 60 and 65. Women born on or after 6 April 1955 and before 6 April 1959 will have a State Pension age of 65.

The State Pension age for both men and women is to increase from 65 to 68 between 2024 and 2046, with each change phased in over two consecutive years in each decade. The first increase, from 65 to 66, will be phased in between April 2024 and April 2026; the second, from 66 to 67, will be phased in between April 2034 and April 2036; and the third, from 67 to 68, between April 2044 and April 2046.

Q: Who is eligible to receive the State Pension?

A: You may be entitled to a State Pension if you have:

Reached the State Pension age - and; you, your husband wife or civil partner have paid or been credited with NI contributions

Q: How much State Pension will I receive?

A: It is not possible to provide a definitive amount as every individual's circumstance will be different. The amounts of all benefits are reviewed each year with most benefits updated in April. However, your State Pension is not updated if you live in certain countries abroad.

The rules for benefits mean that your individual circumstances may affect the amount you

can receive. However as a general guide the amounts are as follows:

| BASIC STATE PENSION (PER WEEK FROM 7 APRIL 2008) | |
|--|--------|
| Based on your own or your late husband's, wife's or civil partner's NI contributions | £90.70 |
| Based on your husband's NI contributions | £54.35 |
| Non-contributory over 80 pension | £54.35 |
| Age Addition | £ 0.25 |

Q: What is the State Pension made up of?

A: The State Pension may be made up of the following:

BASIC STATE PENSION

Entitlement to the basic State Pension is dependent on the number of qualifying years you have earned over your working life.

WORKING LIFE

Your working life is the period over which you have to have met the contribution conditions for the basic State Pension. It is normally:

- 49 years for men
- 44 years for women born on or before 5 October 1950
- 45 years for women born on 6 October 1950 or on any day through to and including 5 October 1951
- 46 years for women born on 6 October 1951 or on any day through to and including 5 October 1952
- 47 years for women born on 6 October 1952 or on any day through to and including 5 October 1953
- 48 years for women born on 6 October 1953 or on any day through to and including 5 October 1954
- 49 years for women born on 6 October 1954 or later

Your working life is counted from the start of the tax year in which you reach the age of 16 to the end of the tax year before the one in which you reach State Pension age.

Qualifying years are based on the NI contributions you have paid, been treated as having paid or been credited with during your working life.

ADDITIONAL STATE PENSION

Depending on your individual circumstances, you may also be entitled to an additional State Pension. This is also called the State Second Pension and was formerly known as the State Earnings Related Pension Scheme or (SERPS). As its name suggests, additional State Pension is paid in addition to the basic State Pension.

GRADUATED RETIREMENT BENEFIT

Based on any graduated NI contributions you paid between April 1961 and April 1975.

LONG-TERM INCAPACITY BENEFIT AGE ADDITION TO STATE PENSION

Your State Pension will be automatically and permanently be increased if you were getting long-term Incapacity Benefit Age Addition at anytime within the period of 8 weeks ending on the day before you reach State Pension age.

Your long-term Incapacity Benefit Age Addition will be reduced if you are getting any additional

State Pension. This may mean no long-term Incapacity Benefit Age Addition is payable.

The rate you get will be the same as that which is paid with your Incapacity Benefit.

AGE ADDITION

This is 25p a week and is paid to anyone aged 80 or over on top of their State Pension.

INCREASED STATE PENSION FOR DEPENDANTS

You may be able to receive an increased State Pension for your husband, wife or civil partner.

Before 6 April 2003 you could get an increase in your State Pension for any children you had responsibility for, or if someone else looked after children for you. If you were receiving this increase before 6 April 2003 it will continue to be paid. From 6 April 2003 provision for children is made through Child Tax Credits.

PENSIONS REFORM

The Pensions Act 2007 and the Pensions Act (Northern Ireland) 2008 have made changes to the State Pensions system.

If you are a married woman and cannot get a full basic State Pension because you do not have enough qualifying years based on your own National Insurance (NI) contributions, you may be able to get a State Pension based on your husband's NI contributions. You can only do this if he is already getting a basic State Pension and you are aged 60 or over.

If you are a widow, widower or surviving civil partner, you may be able to get a basic State Pension based on your late husband's, wife's or civil partner's NI contributions.

If you are already a widow, widower or surviving civil partner you can get up to 100 per cent of your late husband's, wife's or civil partner's additional State Pension.

If your husband or wife or civil partner reached State Pension age before 6 October 2002, you may receive up to 100 per cent of their SERPS pension or Additional State Pension when they die.

If your husband, wife or civil partner is due to reach State Pension age after 5 October 2002

but before 6 October 2010, if they die before you, you may receive a maximum of between 90 per cent and 60 per cent of their SERPS pension. The exact amount will depend on when, in this period, they reach State Pension age.

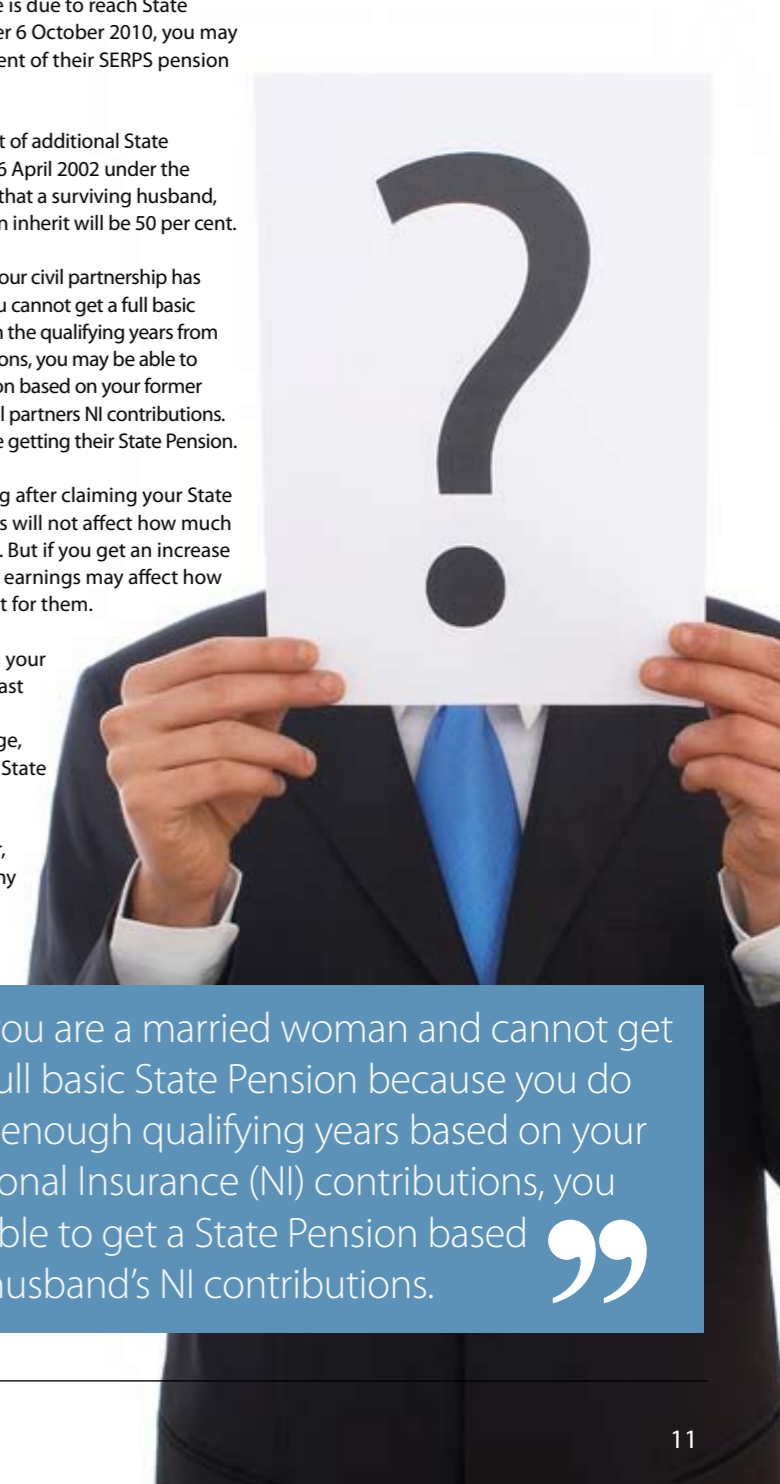
If you husband or wife is due to reach State Pension age on or after 6 October 2010, you may receive up to 50 per cent of their SERPS pension if they die before you.

The maximum amount of additional State Pension built up after 6 April 2002 under the State Second Pension that a surviving husband, wife or civil partner can inherit will be 50 per cent.

If you are divorced or your civil partnership has been dissolved and you cannot get a full basic State Pension based on the qualifying years from your own NI contributions, you may be able to get a basic State Pension based on your former husband's, wife's or civil partners NI contributions. They do not need to be getting their State Pension.

If you carry on working after claiming your State Pension, your earnings will not affect how much State Pension you get. But if you get an increase for a dependant, their earnings may affect how much increase you get for them.

If you put off claiming your State Pension for at least five weeks when you reach State Pension age, you can earn an extra State Pension. The weekly amount of your State Pension will be higher, but you will not get any State Pension for the weeks you put off claiming.



“ If you are a married woman and cannot get a full basic State Pension because you do not have enough qualifying years based on your own National Insurance (NI) contributions, you may be able to get a State Pension based on your husband's NI contributions. ”

DID YOU KNOW?**ADDITIONAL STATE PENSION**

From 1978 to 2002 additional State Pension was paid from the State Earnings Related Pension Scheme (SERPS) and was only available to employees.

From 6 April 2002, SERPS was reformed to provide a more generous additional State Pension for low and moderate earners, and to extend access to include certain carers and people with long-term illness or disability. This is called the State Second Pension.

GRADUATED RETIREMENT BENEFIT

Based on your graduated NI contributions paid between April 1961 and April 1975. For every £7.50 (man) or £9 (woman) of graduated contributions paid you get 10.98 pence (in 2008/09).

INCREASED BENEFITS FOR DEPENDANTS**DEPENDENT CHILDREN**

If you were in receipt of the increase for dependent children before 5 April 2003, you may continue to receive:

- £9 for the oldest child who qualifies for Child Benefit
- £11.35 for each other child who qualifies

No claim for this benefit can be made after 6 April 2003.

DEPENDENT ADULTS

You may get £54.35 (in 2008/09) for a husband, wife or a person looking after children, paid with your State Pension (based on your NI contributions).

WHAT HAPPENS IF?

Q: I go to live abroad or visit?

A: Contact The Pension Service as soon as you can to let them know you are going abroad. You can continue to get your State Pension anywhere in the world. Most benefits are affected if you are going abroad.

Q: I go abroad for 3 months or less

A: If you have your State Pension paid into an account, this can usually continue. If you are paid by cheque you can ask to have the money paid into an account or your State Pension can be paid as a lump sum when you return to the UK.

Q: I go abroad for between 6 and 12 months

A: If you have your State Pension paid into an account, this should be able to continue. You can

request to have the money transferred abroad. If you do not want this to continue, a cheque could be sent (in sterling) at the end of every four or thirteen weeks. This can usually be sent straight to you, your overseas bank or someone else appointed by you.

If you prefer, your State Pension could be paid as a lump sum when you returned to the UK.

Q: I go abroad for 12 months or permanently

A: Your State Pension can be paid straight into your overseas account in some countries.

If this is not possible or if you prefer, your State Pension can be paid into a UK account or a cheque (in sterling) sent at the end of every four or thirteen weeks. This can be sent straight to you, your overseas bank or someone else outside the UK chosen by you.

If you are away for less than two years your State Pension can be paid as a lump sum when you return to the UK.

If your State Pension is £5 a week or less and is paid once a year, it will continue to be paid in while you are abroad.

Special arrangements may have to be made if you need payments made to Pakistan, India or Bangladesh.

You can continue to receive your State Pension anywhere in the world, but in some countries you may not be able to get an increase in your State Pension for your dependants or the yearly increase in your payments.

Q: I start voluntary work?

A: State Pension is not usually affected by voluntary work.

Q: I go into residential care or a nursing home?

A: Your State Pension may be affected, so you should contact The Pension Service as soon as you go into care or a home and they will advise you.

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Making life easier

REFORMS DESIGNED TO BUILD A BIGGER PENSION PROVISION

Changes have recently been made to the State Pensions system. In the main, these changes will only affect you if you reach State Pension age on or after 6 April 2010.

These reforms will also make it easier for people who reach State Pension age on or after 6 April 2010 to build up full State Pension provision.

These changes were introduced by the Pensions Act 2007 and the Pensions Act (Northern Ireland) 2008.

CHANGES TO THE BASIC STATE PENSION

The main changes to the Basic State Pension are:

- the number of qualifying years needed for a full basic State Pension will be reduced to thirty
- just one qualifying year of contributions, paid or credited, will give entitlement to some basic State Pension
- contributions through paid work and credited contributions will be treated equally in building up entitlement to basic State Pension
- basic State Pension will rise in line with earnings rather than prices (from 2012 at the earliest)

CHANGES TO THE STATE SECOND PENSION

The State Second Pension will be simplified. It will provide a flat rate amount for each qualifying year built up (from 2012 at the earliest).

CHANGES FOR CARERS

This is a new credit which will count towards the basic State Pension and State Second Pension and will be available to people bringing up children and caring for disabled people.

CHANGES TO THE STATE PENSION AGE

The State Pension age, which is the earliest age at which you can claim your State Pension, will increase.

The first change will affect women born on or after 6 April 1950 but before 6 April 1959 and has been in legislation since 1995. The second change, in the Pensions Act 2007, will affect men and women born on or after 6 April 1959.

PERSONAL ACCOUNTS AND CHANGES TO OCCUPATIONAL PENSIONS

These reforms are designed to encourage greater participation in occupational pension schemes. From 2012 it is planned that all eligible employees who do not have a good private pension will be automatically enrolled into either their employers' existing pension scheme or a new savings vehicle called a Personal Account. To encourage participation, employees' pension contributions will be supplemented by contributions from employers and tax relief.

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Uncovering the jargon

Getting to grips with the language of retirement

“The flat rate part of the State Pension that is paid to everyone who has enough qualifying years through having paid or been treated as having paid or been credited with National Insurance (NI) contributions.”

ADDITIONAL STATE PENSION

The earnings-related part of the State Pension built up in the State Second Pension and/or the State Earnings Related Pension Scheme (SERPS).

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Employee contributions payable to a salary related occupational scheme that are over and above the normal contributions required by the scheme rules. This can be a useful way for people to get additional benefits from their occupational scheme.

ANNUITY

Purchased with an individual pension pot built up in a money purchase arrangement to provide a pension that is usually payable for life.

APPROPRIATE PERSONAL / STAKEHOLDER PENSION

This is a term used to describe a personal pension or stakeholder pension that is contracted out.

BASIC STATE PENSION

The flat rate part of the State Pension that is paid to everyone who has enough qualifying years through having paid or been treated as having paid or been credited with National Insurance (NI) contributions.

BENEFICIARY

Usually used to describe a person entitled to benefit under a pension scheme.

BONDS

In general, 'Bonds' fall into two main categories. 'Fixed-interest securities' are investment vehicles issued by public companies, local authorities, government and also private companies (corporate bonds) which carry a fixed rate of interest normally payable over a specified period. UK government fixed interest securities are called 'gilts' and can be bought and sold on the

market. Their value generally rises when interest rates are low and falls when interest rates are high. Corporate bonds tend to pay a higher rate of interest than those issued by public bodies because of the higher risk of default.

'Index-linked securities' were devised specifically for pension schemes and were first introduced in the UK in 1981. The index link refers to the amount of capital invested and a fixed rate of interest is also payable on the current capital value and so is itself indexed.

COMBINED PENSION FORECAST

Provides members of private pension schemes with an estimate of how much they are likely to receive from both their State and their current private pension.

CONTRACTED OUT

Someone is contracted out if they join a pension scheme that provides benefits in place of the State Second Pension (formerly SERPS).

CONTRACTED-OUT RIGHTS

Rights held in a pension fund that derive mainly from the National Insurance (NI) contribution rebate and its investment return.

CONTRACTED-IN

Any private pension scheme that provides benefits in addition to, and not replacing, the State Second Pension (formerly SERPS) is commonly referred to as being "contracted-in."

DEFINED BENEFIT SCHEME

A scheme that provides benefits that are usually related to the scheme member's salary rather than how much is paid into the scheme and how well the payment has been invested.

EARNINGS THRESHOLD

This is an amount of earnings stipulated within certain tax rules that allow you to invest in

excess of this figure in to a personal pension if you meet other requirements relating to your age and your earnings.

EMPLOYMENT SERVICE

The length of time you have worked for an employer. This should not be confused with Pensionable service.

EQUITIES

Equities are investments in a stock exchange listed company, where the value of the investment (shares) is dependent upon the performance of the company and the general state of the stock market. They also, normally, generate income through the payment of dividends. Equities held in UK pension funds generally fall into two categories, those listed on the London Stock Exchange (UK equities) and those listed on a foreign stock exchange (overseas equities).

FINAL SALARY SCHEME

A type of Defined Benefit scheme where the pension payable is based on the length of time that someone has been a member of the scheme and his or her earnings in the final years leading to retirement.

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTION (FSAVCS)

Employee contributions that are made to a pension provider under the terms of an existing occupational pension contract but are entirely separate from the occupational pension scheme.

GROUP PERSONAL PENSION SCHEME

An arrangement with a personal pension provider that allows a group of individuals to take out a personal pension on a group basis. They are usually set up by an employer on behalf of its employees but can also be set up by a group of self-employed individuals. The main advantage of such an arrangement is that it can result in the scheme making lower administration charges.



“The additional State Pension which reformed the State Earnings Related Pension Scheme (SERPS) pension in April 2002 to provide a more generous pension for low and moderate earners.”

HOME RESPONSIBILITIES PROTECTION (HRP)

This helps protect a person's entitlement to the basic State Pension if they are unable to undertake regular employment due to caring for a child or children or a sick or disabled person at home. It may also help a person qualify for additional State Pension, via the State Second Pension. From April 2010, HRP will be replaced by a system of credits for parents and carers and periods of HRP awarded before 2010 will be converted to credits for people reaching the state pension age (SPA) after this date.

LOWER EARNINGS LIMIT

The minimum amount that someone must earn in a tax year in order to build up a sufficient entitlement to State benefits, including Incapacity Benefit, Jobseeker's Allowance and State Pension.

MIXED BENEFIT SCHEME

A type of hybrid scheme that allows an employer to run a salary-related and money-purchase section under the same scheme.

MONEY-PURCHASE SCHEME

A private pension scheme providing benefits on a Money-Purchase basis, with the exception of death benefits. The amount payable is based upon the amount paid in and how well that money has been invested.

NATIONAL INSURANCE (NI) CONTRIBUTIONS

Regular payments to the State to help build up entitlement to benefits including Jobseeker's Allowance, Incapacity Benefit and State Pension.

NORMAL RETIREMENT AGE

The earliest age at which a member of an occupational pension scheme can be paid a pension without a reduction in benefits.

OCCUPATIONAL PENSION SCHEME

A type of private pension scheme run by some employers to provide a pension for their employees. Sometimes referred to as a works pension, a company pension or superannuation scheme.

OCCUPATIONAL PENSION SCHEME MANAGERS

The people responsible for ensuring that occupational pension schemes operate effectively and within the law.

OCCUPATIONAL PENSION SCHEME TRUSTEES

The people who represent the interests of scheme members. They must act independently from the employer. Where one of the trustees is also the employer, the trustee duties and the responsibilities arising from the role as employer must be kept separate.

PENSION CREDIT

Pension Credit is an income-related benefit for people aged 60 or over living in Great Britain that provides, or contributes to, a guaranteed level of income. It also means that for the first time, people aged 65 and over will be rewarded for some of their savings and income they have for their retirement.

PENSION PROTECTION FUND

This compensates members of eligible Defined Benefit schemes when there is a qualifying insolvency event in relation to the employer and there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

PENSIONABLE SERVICE

The length of time that someone has been a member of a pension scheme. This is not to be confused with Employment service.

PERSONAL PENSION SCHEME

A type of private pension scheme, including a stakeholder pension scheme, run by banks, investment companies and building societies.

PRIVATE PENSION SCHEME

This can be a personal pension scheme, including a stakeholder pension, or an occupational pension scheme.

QUALIFYING YEAR

A tax year in which you have sufficient earnings upon which you have paid, are treated as having paid or have been credited with, National Insurance contributions.

RETIREMENT AGE

This is the age when you choose to leave work. It can also be used in reference to the Normal Retirement Age stated under certain private pension schemes, which relates to when you can start collecting your private pension. It is not necessarily the same as your State Pension age. SERPS (State Earnings Related Pension Scheme) The State Earnings Related Pension Scheme reformed by the State Second Pension in 2002.

STAKEHOLDER PENSION SCHEME

A type of personal pension scheme that has to meet minimum standards set down in law. Stakeholder pensions are flexible and portable with a cap on annual management charges.

STATE PENSION

The pension payable by the State, which is based on an individual's National Insurance contribution record.

STATE PENSION AGE

The earliest age at which someone can receive the State Pension.

STATE PENSION DEFERRAL

A term used to describe the decision to put off claiming the State Pension. People who do this may receive a higher State Pension or a one-off taxable lump sum payment.

STATE PENSION FORECAST

The State Pension forecast gives details of the State Pension already built up and the amount that someone is likely to receive at State Pension age.

STATE SECOND PENSION

The additional State Pension which reformed the State Earnings Related Pension Scheme (SERPS) pension in April 2002 to provide a more generous pension for low and moderate earners.

TAX RELIEF

Generally, contributions payable to a pension scheme that is approved by the HM Revenue & Customs for tax purposes, are not subject to Income Tax.

TRACKER FUNDS

Tracker funds, sometimes referred to as index funds, aim to replicate or copy the performance of a given share index or sector of the market.

UNIT-LINKED

A type of personal pension where contributions are used to buy shares in funds chosen from a wide range of investments. The value of these investments can fall as well as rise but over the longer period they may offer higher returns. Costs are normally deducted from the fund.

WAR DISABLEMENT PENSION

A pension for people who have been injured or disabled during wartime, or as a result of their service in Her Majesty's Armed Forces, subject to certain conditions.

WAR WIDOW'S/WIDOWER'S PENSION

A pension for people whose husband's, wife's or surviving civil partner's death was caused by, or happened sooner because of, service in Her Majesty's Armed Forces.

WITH-PROFITS

A type of personal pension with contributions that are invested in equities and gilt-edged securities. Investments have the potential to grow as bonuses are added. Bonuses reflect stock market performance and other factors, such as administration charges. The provider smoothes returns so that some gain in a good year is held back to boost performance in a lower performing year.

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Let's get ethical

ENVIRONMENTAL AND SOCIALLY RESPONSIBLE INVESTMENT

There are a number of questions that need to be answered before you can make an informed choice about what ethical or socially responsible investment fund (SRI) matches your profile. An ethical or SRI fund is one whereby the choice of investments is influenced by one or more social, environmental or other ethical criteria. The three main ones that are generally talked about are screening, preference (or "best in class") and engagement.

Screening, probably the best known, is whereby companies are excluded because of their involvement in certain activities, such as, nuclear power, the fur trade and tobacco. This approach also applies where companies are included for positive contributions to society and the environment, including for example, energy efficient technology and organic farming.

There is a variation in how investment policy is developed and adhered to. Some have independent ethical committees with an ultimate say on policy changes and company investments and others delegate the responsibility to the fund manager. You may also find that some will use a combination of these two approaches.

A preference or best-in-class approach applies social, environmental and ethical guidelines to select investments. This could mean that a fund manager who has to invest in oil stocks might select the oil company with the best environmental management record.

Engagement does not necessarily exclude, include or prefer companies, however fund managers typically look to encourage companies that adopt social and environmental best practices.

Most ethical investment funds permit you to hold the current £7,200 (2008/09) annual Individual Savings Account (ISA) allowance, in a tax-efficient ethical ISA wrapper. If you don't want to expose your money to stock markets you could still save ethically and tax-efficiently through a Cash ISA.

Currently there are in the region of almost 100 green and ethical funds available to UK investors, compared with a decade ago when there were just a couple of dozen.

There are also a number of pension companies that offer ethical funds. For the more experienced appropriate investor one consideration is a self-invested personal pension plan (SIPP). These free you to invest your pension in the full range of UK-based investment funds, including almost every ethical fund.

Your investment attitude is crucial, and you need to assess where you fit on the investment risk for reward scale. If you're a low-risk investor, you may wish to avoid stocks and shares altogether, while if you are at the other end of the scale and have a more aggressive attitude you could consider higher risk companies such as renewable energy start-ups.

Diversification is the key to reducing risk, and not investing all of your money into one fund or sector, but spreading it across different funds, sectors and geographical areas around the world. Ethical funds invest throughout the UK, Europe, the US and Asia, and in sectors such as bonds.

TO CONSIDER YOUR ETHICAL OPTIONS, PLEASE CONTACT US FOR MORE INFORMATION.

Funds under management

BEST PERFORMANCE FOR A YEAR

The Investment Management Association (IMA) in its Investment Fund Statistics (April 2008) report published on Wednesday 28 May 2008, showed after two extremely modest quarters, net retail sales bounced back in April to £1.5 billion, the best performance for a year. Property funds reversed recent outflows, recording positive flows of some £70 million. And the IMA's new £1.8 billion Absolute Return sector recorded healthy inflows of over £170 million.

UK DOMICILED FUNDS

Funds under management of UK domiciled investment funds were £450.3 billion in April, a rise of 4 per cent from March 2008 and 2 per cent lower than April 2007. UK domiciled ISA funds under management were £93.5 billion. This figure is not directly comparable with previous releases because of the merger of PEPs in to stocks and shares ISAs.

As of April 2008 PEPs were merged into stocks and shares ISAs. For comparison purposes, IMA ISA data for periods prior to April 2008 combines PEPs and ISAs. This applies to both UK and overseas domiciled fund statistics.

Net sales of UK domiciled investment fund ISAs were £391.1 million in April, higher than the £68.6 million seen in March 2008 but down 31 per cent from the £568.3 million in April 2007.

The most popular UK domiciled ISA sector in April 2008 was UK All Companies, accounting for 17 per cent of gross ISA sales. In net terms the most popular ISA sector was Cautious Managed.

UK DOMICILED NET SALE BY ASSET CLASS

Net retail sales in April were £1.5 billion. Of this, £630 million was invested in bond funds, followed by £478 million in equity funds. Institutional holdings of unit trusts and OEICs saw

net inflows of £722 million with money market funds accounting for net inflows of £365 million.

GROSS RETAIL SALES BY SECTOR AND DISTRIBUTION CHANNEL

The most popular sector in April 2008 was UK All Companies, representing 13 per cent of gross retail sales of UK domiciled funds.

BEST SELLING SECTOR FOR UK DOMICILED FUNDS

The UK Other Bond sector was the most popular UK domiciled net retail sales sector with inflows of £456 million. The sector with the biggest outflows in April 2008 was UK All Companies, with net outflows of £182 million. Property funds saw net retail inflows of £71 million.

OVERSEAS FUNDS

Overseas funds under management of £16.4 billion in April 2008 saw a 4 per cent increase from the previous month. Overseas ISA assets under management were £381 million.

Net retail sales of overseas domiciled funds in April 2008 were £9.8 million. Net retail sales of overseas domiciled investment fund ISAs were £6.6 million April 2008, partly reversing the previous month's outflow of £16.5 million.

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Inheritance tax

IS YOUR LIFE COVER WRITTEN IN AN APPROPRIATE TRUST?

Check that all your life insurance policies that will pay out on your death are "written in an appropriate trust." This will ensure that their value passes straight to your family (or other beneficiaries), avoids your will and therefore is not liable for IHT.

This is a relatively simple procedure, which might have already been carried out when you took out the policy. If not it can be easily added in to the legal documentation in your policy.



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Making a will

WHO WILL YOUR LEGACY END UP WITH?

Without a will, the State directs who inherits your estate, so your friends, favourite charities and relatives may get nothing.

It is particularly important to make a will if you are not married or are not in a registered civil partnership (a legal arrangement that gives same-sex partners the same status as a married couple). This is because the law does not automatically recognise cohabitants (partners who live together) as having the same rights as husbands, wives and civil partners. As a result, even if you've lived together for many years, your cohabitant may be left with nothing if you have not made a will.

A will is also vital if you have children or dependants who may not be able to care for themselves. Without a will there could be uncertainty about who will look after or provide for them if you die.

COULD ONE OR MORE OF THESE SCENARIOS BE RELEVANT TO YOUR SITUATION?

- several people could make a claim on your estate when you die because they depend on you financially;
- you want to include a trust in your will (perhaps to provide for young children or a disabled person, save tax,
- or simply protect your assets in some way after you die);

- your permanent home is not in the UK or you are not a British citizen;
- you live here but you have overseas property; or
- you own all or part of a business.

Once you have had a will drawn up, some changes to your circumstances, for example, marriage, civil partnership, separation, divorce or if your civil partnership is dissolved (legally ended), can make all or part of that will invalid or inadequate. This means that you must review your will regularly, to reflect any major life changes.

Who do you want to leave your assets to? How do you want to divide your property between your loved ones, friends or charities? Are there any conditions you want to attach to these gifts (for example, that young people must reach a particular age before they are paid money you have left them)?

You need to consider the details of your family and status. Are you divorced or has your civil partnership been dissolved? Have you remarried or entered into a new civil partnership? Or are you living with someone without being married to them or being their civil partner? Do you have any children or any other dependants? Anyone

who depends on you financially can ask a court to review your will if they feel you have not provided properly for them.

If you have any children that may still be under 18 when you die, you may need to name someone as their legal guardian.

Do you have any particular wishes for your funeral? Do you want to be buried or cremated? Are there any other instructions? For example, if you want to be an organ donor this can be included in your will. However, it is also a good idea to record your wishes on the organ-donor register, or to carry an organ-donor card.

You must also name the people you want to appoint as 'executors' of your will, the people who carry out the administration of your will after your death. These could be friends or family members, or a professional such as your solicitor. A good combination may be a friend or family member and a professional. Ideally, you should choose someone who is familiar with financial matters. Make sure you ask your executors whether they are happy to take on this duty as there are long-term responsibilities involved, particularly if you include a trust in your will. Once the will has been drawn up it is not effective until it has been signed. There are several

rules affecting the signature process which, if not followed correctly, will make your will invalid. For example, witnesses and their husbands, wives or civil partners cannot benefit under the will.

It is important to keep your will in a safe place and tell your executors or a close friend or relative where it is. People often ask their solicitor to store their wills for them. Most solicitors will do this for free, but sometimes there is a small fee.

You should review your will at least every five years and after any major life change such as getting separated, married or divorced, having a child or moving house. It is best to deal with any major changes by getting a new will drawn up. But it is also possible to make minor changes (or 'codicils') to your existing will.

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Fund sectors

A GUIDE TO WHERE YOUR MONEY IS BEING INVESTED

Unit trusts and open-ended investment companies (OEICs) are divided into different groups, or sectors by the Investment Management Association (IMA).

There are two broad categories, Income and Growth, and each sector within these groups is made up of funds that invest in similar assets, the same stock market sector or in the same geographical region. A third Specialist category is home to funds that cannot be categorised under Income and Growth.

INCOME FUNDS

These are funds with an 'immediate income' objective:

UK Gilts – Funds which invest at least 95 per cent of their assets in sterling denominated (or hedged back to sterling) AAA rated UK government backed securities with at least 75 per cent invested in UK government securities (gilts).

UK Index-linked Gilts - Funds which invest at least 90 per cent of their assets in UK Index-linked government securities (gilts).

UK Corporate Bond – Funds which invest at least 80 per cent of their assets in sterling-denominated (or hedged back to sterling) bonds, BBB-minus or above bonds as measured by either Standard & Poor (S&P) or equivalent, Moody's Baa or above. This excludes convertibles. S&P rates bonds from the most stable governments triple AAA. Blue chip companies are then AA or A and weaker companies are BBB, BB or B, and so on.

UK Other Bond – Funds investing at least 80 per cent of their assets in sterling-denominated (or hedged back to sterling) and at least 20 per cent of their assets in below BBB-minus bonds as measured by either S&P or equivalent, convertibles and preference shares.

Global Bonds – Funds which invest at least 80 per cent of their assets

in fixed interest stocks. All funds which contain more than 80 per cent fixed interest investments are to be classified under this heading regardless of the fact that they may have more than 80 per cent in a particular geographic sector, unless that geographic area is the UK, when the fund should be classified under the relevant UK heading.

UK Equity & Bond Income – Funds which invest at least 80 per cent of their assets in the UK, between 20 per cent and 80 per cent in UK fixed interest securities and between 20 per cent and 80 per cent in UK equities. These funds aim to have a yield of 120 per cent or over of the FTSE All-Share index.

These are funds with a 'growing income' objective:

UK Equity Income – Funds which invest at least 80 per cent of their

assets in UK equities and which aim to have a yield in excess of 110 per cent of the yield of the FTSE All-Share.

GROWTH FUNDS

These are funds with a 'capital protection' objective:

Money Market - Funds which invest at least 95 per cent of their assets in money market instruments (i.e. cash and near cash, such as bank deposits, certificates of deposit, very short-term fixed interest securities or floating rate notes).

Protected/Guaranteed Funds - Funds, other than money market funds, which principally aim to provide a return of a set amount of capital back to the investor either explicitly guaranteed or 'via an investment strategy highly likely to achieve this objective') plus some market upside.

These are funds that concentrate on 'capital growth/total return':

UK All Companies – Funds which invest at least 80 per cent of their assets in UK shares which have a primary objective of achieving capital growth.

UK Smaller Companies – Funds which invest at least 80 per cent of their assets in UK stocks that make up the bottom 10 per cent of the UK stock market.

Japan – Funds which invest at least 80 per cent of their assets in Japanese shares.

Japanese Smaller Companies – Funds which invest at least 80 per cent of their assets in Japanese stocks of companies which form the bottom 30 per cent by market capitalisation.

Asia Pacific including Japan – Funds which invest at least 80 per cent of their assets in Asia Pacific shares, including some Japanese. The Japanese element must make up less than 80 per cent.

Asia Pacific excluding Japan – Funds which invest at least 80 per cent of their assets in Asia Pacific shares and exclude Japanese securities.

North America – Funds which invest at least 80 per cent of their assets in North American shares.

North American Smaller Companies – Funds which invest at least 80 per cent of their assets in North American equities of companies which form the bottom 20 per cent by market capitalisation.

Europe including UK – Funds which invest at least 80 per cent of their assets in European shares. They may include UK stocks, but these must not exceed 80 per cent of the fund's assets.

Europe excluding UK – Funds which invest at least 80 per cent of their assets in European shares and exclude the UK.

European Smaller Companies – Funds which invest at least 80 per cent of their assets in European equities of companies which form the bottom 20 per cent by market capitalisation in the European market. They may include UK stocks, but these must not exceed 80 per cent of the fund's assets. ('Europe' includes all countries in the MSCI/FTSE pan-European indices).

Cautious Managed – Funds would offer investment in a range of assets, with the maximum equity exposure restricted to 60 per cent and with at least 30 per cent invested in fixed interest and cash. There would be no specific requirement to hold a minimum percentage of non-UK equity. Assets must be at least 50 per cent in sterling/euro assets and equities are deemed to include convertibles.

Balanced Managed – Funds would offer investment in a range of assets, with the maximum equity exposure restricted to 85 per cent. At least 10 per cent must be held in non-UK stocks. Assets must be at least 50 per cent in sterling/euro assets and equities are deemed to include convertibles.

Active Managed – Funds would offer investment in a range of assets, with the manager being able to invest up to 100 per cent in equities at their discretion. At least 10 per cent must be held in non-UK equities. There is no minimum sterling/euro balance and equities are deemed to include convertibles. At any one time the asset allocation of these funds may hold a high proportion of non-equity assets such that the asset allocation would by default place the fund in either the Balanced or Cautious sector. These funds would remain in this sector on these occasions since the manager retains the right to invest up to 100 per cent in equities.

Global Growth – Funds which invest at least 80 per cent of their assets in equities (but not more than 80 per cent in UK assets) and which have the prime objective of achieving growth of capital.

Global Emerging Markets – Funds which invest 80 per cent or more of their assets directly or indirectly in emerging markets as defined by the World Bank, without geographical restriction. Indirect investment e.g. China shares listed in Hong Kong, should not exceed 50 per cent of the portfolio.

In addition, the sectors above also require funds to be broadly diversified within the relevant country, region or asset class. Funds that concentrate solely on a specialist theme, sector or single market size (or a single country in a multi-currency region) would be incorporated below.

UK Zeros – Funds investing at least 80 per cent of their assets in sterling denominated (or hedged back to sterling) and at least 80 per cent of their assets in zero dividend preference shares or equivalent instruments, this excludes preference shares which produce an income.

SPECIALIST FUNDS

Specialist – Funds not categorised by the mainstream sectors. Performance ranking of funds within the sector as a whole is inappropriate, given the diverse nature of its constituents.

Technology & Telecommunications - Funds which invest at least 80 per cent of their assets in technology and telecommunications shares as defined by major index providers.

Personal Pensions – Funds that are only available for use in a personal pension plan or free-standing additional voluntary contributions (FSAVC).

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Retirement matters

BENEFITS AND TAX ALLOWANCES

When you retire you may be able to get certain benefits on top of any State Pension you're entitled to. Some of these benefits are age-related, others depend on your income. Tax allowances are also more generous from age 65 if your income is below a certain level.

BASIC STATE PENSION

The State Pension age is currently 65 for men and 60 for women born on or before 5 April 1950 (this will increase for women born after 5 April 1950 from 60 to 65 between 2010 and 2020) and eligibility depends on your National Insurance contributions (NICs). You can choose to claim your basic State Pension as soon as you reach the qualifying age, or to delay claiming and get more later on.

ADDITIONAL STATE PENSION

The additional State Pension is also known as the State Second Pension (formerly the State Earnings-Related Pensions Scheme (SERPS) pension). Eligibility is based on a combination of your earnings from employment, and National Insurance Contributions you have made or been credited with. You may also be eligible through other factors, such as a disability or because you've spent time caring for someone. If you qualify, you'll automatically get the additional State Pension when you claim your basic State Pension.

OVER 80 PENSION

If you're aged 80 or over and have little or no State Pension, you may be able to claim the Over 80 Pension.

PENSION CREDIT

If you're aged 60 or over you can apply for Pension Credit to top up your income to a weekly minimum.

WINTER FUEL PAYMENT

You may be able to claim a payment to help with fuel bills if you're aged 60 or over. There is also an extra £100 for eligible households that include someone aged 80 or over.

COLD WEATHER PAYMENT

You may be eligible for a Cold Weather Payment to help with extra heating costs during periods of very cold weather. Payments are made automatically, you don't need to claim.

WARM FRONT GRANT

If you're on a low income you may be able to claim up to £2,700 or in some cases £4,000 for heating improvements to your home.

You can get Attendance Allowance if you're aged 65 or over and need help with personal care because of an illness or disability.

CARER'S ALLOWANCE

If you look after someone who's severely disabled, you may be able to claim Carer's Allowance. If you're severely disabled, someone who looks after you may be able to claim Carer's Allowance.

CHRISTMAS BONUS

If you get certain benefits, including a State Pension, you'll get an extra £10 at Christmas.

FUNERAL PAYMENT

A Funeral Payment can help with the cost of a simple funeral for someone close to you if you are responsible for arranging the funeral.

COMMUNITY CARE GRANTS AND BUDGETING LOANS

Community Care Grants and Budgeting Loans can help cover the cost of one-off expenses including household items, clothing and footwear and certain travelling expenses.

CRISIS LOANS

Crisis Loans can be paid in an emergency or disaster to help with day to day living costs or essential items. They're available where there's a serious risk to you or your family and you can't get help from elsewhere.

HOUSING BENEFIT

If you're on a low income and paying rent, you may be able to claim Housing Benefit.

COUNCIL TAX BENEFIT

You may also be able to claim Council Tax Benefit if you're on a low income.

LOW COST BUS PASSES

From age 60 you qualify for a free bus pass from your local authority.

FREE EYE TESTS, PRESCRIPTIONS AND HELP WITH OTHER HEALTH COSTS

If you're aged 60 or over you may be entitled to help with various health costs, including prescriptions, eye tests and dental treatment.

TV LICENCE REDUCTION FEE

You can receive a free television licence if you're aged 75 or over and pay a reduced fee when renewing between age 74 and 75.

WAR WIDOW'S/WIDOWER'S PENSION

You can claim a tax-free pension if your husband, wife or civil partner died because of war service or received a War Pension or related allowance. Age-related tax allowances

TAX-FREE PERSONAL ALLOWANCE

Everybody gets a tax-free personal allowance, an amount of income you can have before you need to pay tax. If your income is below £21,800 (2008/09) the personal allowance increases when you're 65 and again when you're 75.

MARRIED COUPLE'S ALLOWANCE

If you're married or in a civil partnership and are a taxpayer and either you or your partner was born before 6 April 1935 you can claim married couple's allowance.

“ If you look after someone who's severely disabled, you may be able to claim Carer's Allowance. If you're severely disabled, someone who looks after you may be able to claim Carer's Allowance. ”

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Fresh challenges

A FAIR SHARE OF PROSPERITY

The government's ultimate goal is to ensure that all pensioners have a decent and secure income in retirement and to share fairly in the rising prosperity of the country. This means, among other things, ensuring that people are independent and protected in retirement. People are living longer than ever before, and this brings fresh challenges.

People that plan for their retirement need to be able to make informed choices about how and when to save and how long to work. Employers have a major role to play in this process by providing access, information and contributions to pensions for their employees. The workplace is an effective place for

people to save and there are tax advantages for both the employer and the employee.

As an employer if you don't currently provide an occupational pension scheme for your employees, then you could be required by law to offer your employees access to a stakeholder pension scheme to help them save for their retirement.

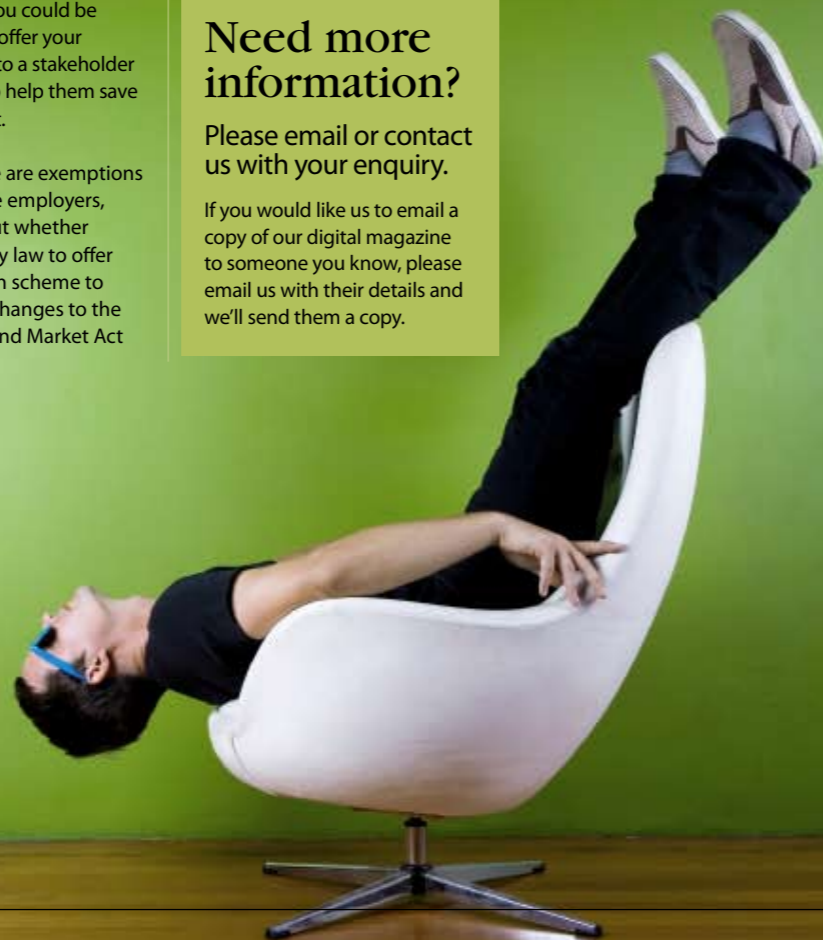
Even though there are exemptions that apply to some employers, you should find out whether you are required by law to offer access to a pension scheme to your employees. Changes to the Financial Service and Market Act

make it easier for employers to promote their own workplace pension to employees.

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Trust Planning

KEEPING HOLD OF YOUR PROPERTY

The fear of having to sell our homes to pay nursing-home fees, when we would rather pass them on to our family members is a common scenario facing many of us today.

One possible solution that could enable you to avoid having to sell your home is the setting up of a basic discretionary will trust commonly used for inheritance tax (IHT) planning. This is where half the house passes into trust for any children on the death of the first spouse. The trusts may also mean that property, in effect, could be disregarded when local authorities assess how much an estate should pay towards long-term care.

Under the English system, anyone with savings or capital of more than £22,250 is required to pay for his or her own care fees. If you have a property worth more than this, as most people do, it will be disregarded if it is inhabited by a partner, former partner or relative.

If you are the only person living there, the local authority may force you to sell it to pay for care. However, if it is jointly owned by a trust for your children, the council cannot make a claim against it. They may be able to place a charge against the property so they receive some of the

proceeds when it is eventually sold, but even then the local authority can only obtain half.

And if your family doesn't want to sell and the local authority is still pursuing a claim, their own guidelines state that the value of a half-share of a property is in effect nil.

With forecasts that show funding long-term care is set to increase considerably over the next 20 years, planning is the key.

DISCRETIONARY WILL TRUSTS

Discretionary will trusts have traditionally been used to transfer a half share of a jointly owned property to any heirs on the death of the first partner, thereby using up both inheritance-tax allowances, now £312,000 (tax year 2008/09). Since the last budget, this is no longer so important because you can now transfer your allowance to your spouse on death. However, these tax-planning devices may provide a relatively simple way to reduce the value of your

home as seen by care authorities and make it much harder for them to insist on its sale.

Suppose a couple, have not implemented any trust planning, the husband dies and his half of the property passes to the wife. She needs to go into a nursing home, at which point the local authority could, in some circumstances, force the sale of the house. In other cases, the payment of care fees could be deferred until she died and the property was sold.

If, however, the property had passed into trust, the property could not be sold while the spouse was still alive, and would be equally difficult to sell on death unless the children agreed.

The Department of Health's viewpoint is that where a resident is a joint beneficial owner of a property it is the resident's interest in the property which is to be valued as capital, not the property itself.



“Bare trusts are treated for tax purposes as if the beneficiary holds the trust property in his or her own name. Income tax and capital gains tax are charged on the beneficiary, as if the trust did not exist.”

Capital gains tax

YOUR MOST FREQUENTLY ASKED QUESTIONS

Q: As a trustee do I have to pay capital gains tax?

A: As a general rule the liability to tax on gains arising to a trust falls on the trustee. There are however certain exceptions which are detailed on HM Revenue & Customs (HMR&C) help sheet HS294.

Q: As a beneficiary do I have to pay capital gains tax on gains that the trustees make?

A: No. The beneficiaries are not taxed on trust gains. They do not get credit for capital gains tax that the trustees pay (except for beneficiaries of bare trusts).

There are special rules for beneficiaries of trusts with non-resident, or dual resident trustees.

Q: What is the annual capital gains exemption for a trust?

A: This is normally half the annual exemption for an individual. For 2008/09 it is £4,800. Certain trusts (for example a trust for a mentally disabled person) are entitled to the full annual exemption of £9,600.

Q: Is each trustee entitled to the trust annual capital gains exemption?

A: No. Only one annual exemption is allowable.

Q: What is the current rate of capital gains tax a trustee pays?

A: The gains of the trustees are taxed at the rate applicable to trusts which is:

Q: How do I get my valuations checked before making my return?

A: You should complete one copy of HMR&C form CG34 for each valuation you would like checked.

Q: How long will it take to get my valuations checked?

A: HMR&C expect that it will normally take a minimum of 56 days to agree your valuation or provide you with an alternative.

Q: What is taper relief?

A: Taper relief was introduced in 1998 for disposals after 5 April 1998. For trustees of a settlement, taper relief ensured that a reducing percentage of gain was chargeable to tax. This depended on the number of whole years the asset had been held after 5 April 1998. The greater the number of years the asset was held from 6 April 1998 the smaller the percentage of gain that became chargeable to tax. For all disposals made on or after 6 April 2008 taper relief has been abolished.

Q: What is a settlement?

A: For capital gains tax the word 'settlement' has its normal meaning. It includes property that is held in trust, except for a bare trust. A bare trust, also known as a 'simple trust' and is one in which each beneficiary has an immediate and absolute right to both capital

and income. The beneficiaries of a bare trust have the right to take actual possession of trust property.

The property is held in the name of a trustee. But that trustee has no discretion over what income to pay the beneficiary. In effect, the trustee is a nominee in whose name the property is held. The trustee has no active duties to perform.

Bare trusts are treated for tax purposes as if the beneficiary holds the trust property in his or her own name. Income tax and capital gains tax are charged on the beneficiary, as if the trust did not exist.

The beneficiary must declare any income and capital gains on his or her personal tax return. Although trustees can pay income tax on behalf of a beneficiary, it is the beneficiary who is chargeable to tax.

Q: What is a settlor?
A: A settlor is any person who makes a settlement.

| RATES | 2008/09 |
|--|-----------------------|
| Trusts where settlor/settlor's minor child/spouse/civil partner retains interest | As settlor's gain |
| Other trusts and personal representatives | 18% |
| Trusts for the vulnerable (subject to election) | As beneficiary's gain |

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Tax-efficient saving and investment

A QUICK GUIDE TO MAKING MORE OF YOUR MONEY

There are a number of ways investors can take advantage of tax-efficient saving and investing, here's a quick guide to get you thinking about the possible options available to you!

CASH ISAS

Cash individual savings accounts (ISA) are basically ordinary savings accounts, but the interest you accumulate is free from tax. Everyone aged 16 and over can put up to £3,600 per tax year (April 6 to April 5) into a Cash ISA.

Many Cash ISAs give you instant access to your money and some providers will also allow you to transfer money between them to take advantage of the best rates, without affecting your annual ISA allowance.

SHARE ISAS

These are accounts in which you can hold stock market-type investments such as shares. The money grows free of capital gains. Higher rate taxpayers also avoid

paying extra tax on dividend payments from shares, and you don't have to declare ISAs on your tax returns.

You can also hold corporate bonds and gilts in one of these ISAs. They pay a fixed rate of interest and, pay the money back on a pre-agreed date. The interest paid by the bonds is free of income tax if they are held within a tax-efficient ISA wrapper.

From 6 April 2008 Maxi and Mini ISAs no longer exist. Instead ISA savers can now invest into a Cash ISA and/or a Stocks and Shares ISA. For the 2008/09 year you may invest £7,200 into your ISA, up to £3,600 of this can be invested in a Cash ISA but if you wish you could invest the full amount into a Stocks and Shares ISA.

A sensible and more diverse way for private investors to capitalise from the stock market is through collective investment funds, which hold a wide range of shares.

SELF-SELECT ISAS

These are largely used for sheltering individual shares in an ISA. With the change in tax treatment of income dividends, a Self-select ISA may not be beneficial for many investors unless they expect to use their capital gains tax allowance each year.

FRIENDLY SOCIETIES

Friendly societies offer tax-efficient investment schemes that let you put away a small amount, either as a regular monthly payment or lump sum. These are basically endowment policies, so you have

to save for a minimum ten years for the proceeds to be tax-efficient.

OFFSHORE INVESTING

Investing offshore provides opportunities for tax deferral, reduction and avoidance.

The attraction is 'gross roll-up'. This means assets can grow without being taxed and could therefore outperform onshore investments. However gains or income are liable to tax in the UK when they are brought back onshore. You may also need to pay tax of another country if you take the money there.

You should consider how long you are going to be away if you are emigrating, your residency for tax purposes, your will, property and more liquid assets such as savings. Always seek professional advice as sheltering money from tax offshore can be extremely complicated.



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