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Wealth Management

Undivided attention

talking money

JULY/AUGUST 2012

# BRIGHT IDEAS TO MAKE MORE OF YOUR MONEY THIS SUMMER

7 steps to surviving investment volatility

# PENSIONS ROULETTE

Retirees tap into savings earmarked for retirement

## ARE YOU UNPROTECTED AND AT RISK OF FINANCIAL HARDSHIP?

Put some shock absorbers in place to deal with the unexpected

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If you have underlying health conditions you should talk to us

## THE RISK IN DOING NOTHING

Don't minimise your chance of achieving your goals

## REDUCING YOUR FAMILY'S INHERITANCE TAX BILL

Let us help you find the right wealth structure or combination of structures

Wealth Management | Payroll Bureau | Taxation | Chartered Accountants & Business Advisers

4 Lorn Street, Birkenhead, CH41 6AR **Tel:** 0151 647 6682 **Fax:** 0151 647 6501 **Email:** ho@mcwallacefs.co.uk **Web:** www.mcwallace.co.uk

# EDITORIAL

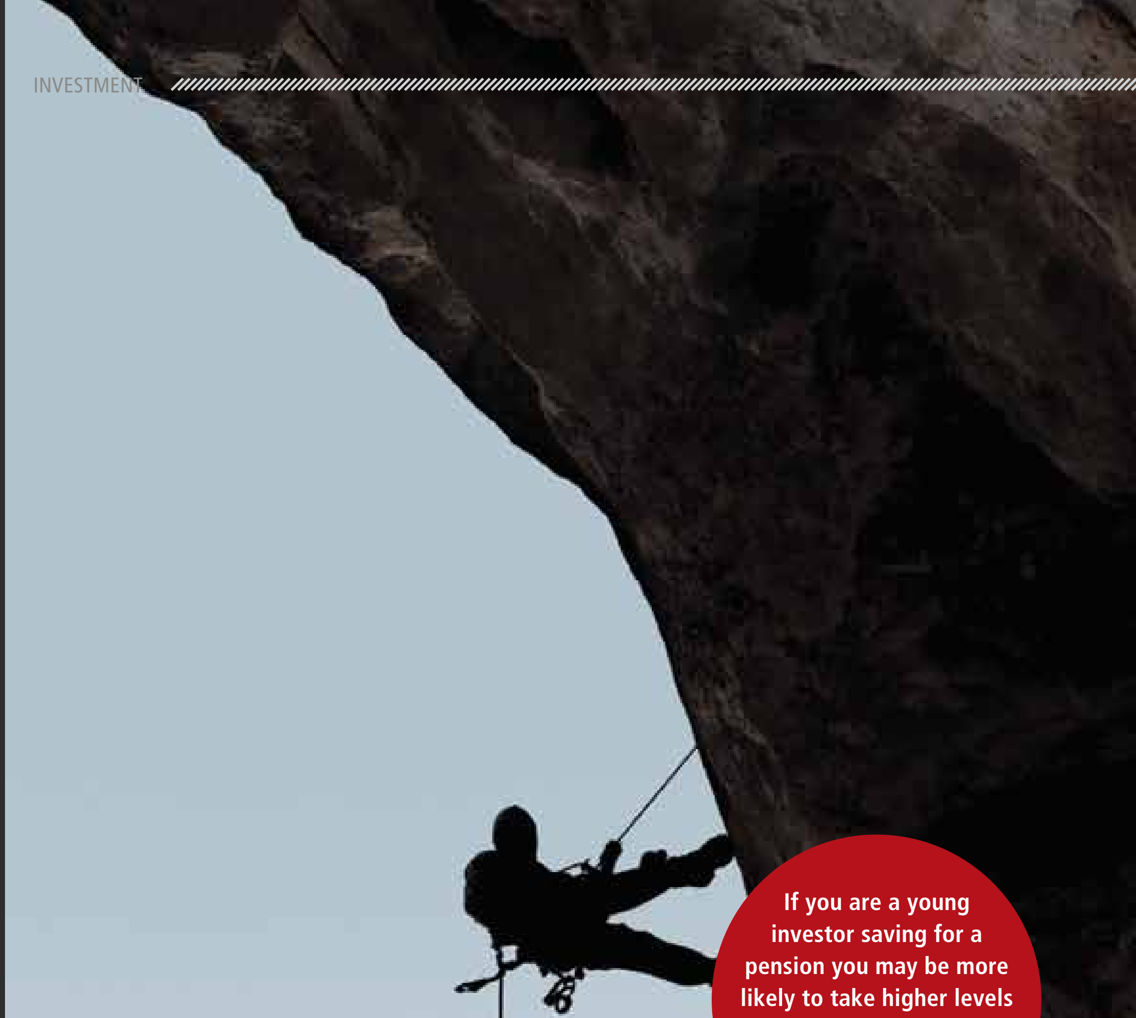
Many investors will have had a roller-coaster ride recently. Fallout from the eurozone crisis has created the most turbulent period in world stock markets since the downturn began in 2008. However, amid all this gloom there is some good news. The simple truth is that volatility is a fact of investment life; you're often better served staying in the markets over the long term than pulling out. On page 04 we look at why, and how, you can do it.

A practical consequence of living longer is that retirement lasts longer. Pensions have to stretch further. Pension legislation is always on the move and keeping up to date with the latest changes could open up new opportunities for you in retirement. Read the full article on page 10.

It is an unfortunate fact of life that as we get older, we are more at risk of getting underlying health conditions. Nearly three quarters of UK adults aged 55 and over are unaware that certain medical conditions could entitle them to a higher level of pension income through their annuity provider. Turn to page 12.

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





# THE RISK IN DOING NOTHING

## Don't minimise your chance of achieving your goals

**If you are a young investor saving for a pension you may be more likely to take higher levels of risk due to the greater length of time to recover short-term losses**

Risk is a fact of life for any investor. Thanks to inflation, there's even risk in doing nothing. To earn rewards you have to assume some level of risk. If you minimise risk you may also minimise your chance of achieving your goals.

### RISK PROFILING

Determining the level of risk you are prepared to take is a process known as 'risk profiling'. This is essential as the more accurate your risk profile, the greater the chance of recommending the most suitable investments for your needs.

### PERSONAL CIRCUMSTANCES

Of course, your personal circumstances form an important part of the risk profiling process. Are you investing for income, growth or both? Your age is also important: if you are a young investor saving for a pension you may be more likely to take higher levels of risk due to the greater length of time to recover short-term losses.

All types of investment carry some risk of making a loss. The main thing is to be comfortable that your investments represent, as closely as possible, a level of risk acceptable to you, and continue to do so. ■

REMEMBER THAT OVER TIME, AS YOUR PERSONAL CIRCUMSTANCES AND THE ECONOMIC OUTLOOK CHANGE, SO TOO MIGHT YOUR ATTITUDE TO RISK. SO IT'S ESSENTIAL THAT YOU REGULARLY REVIEW YOUR INVESTMENTS WITH US TO MAKE SURE THEY CONTINUE TO REFLECT YOUR NEEDS. TO FIND OUT MORE ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US.


# IN THIS ISSUE





**TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US**


## WANT TO MAKE MORE OF YOUR MONEY IN 2012?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

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

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

# BRIGHT IDEAS TO MAKE MORE OF YOUR MONEY THIS SUMMER

## 7 steps to surviving investment volatility

*Many investors may have had a roller-coaster ride recently. Fallout from the eurozone crisis has created the most turbulent period in world stock markets since the downturn began in 2008. However, amid all this gloom there is some good news. The simple truth is that volatility is a fact of investment life; you're often better served staying in the markets over the long term than pulling out. Here's why, and how, you can do it.*

### 1. REMIND YOURSELF WHY YOU INVESTED

Most people invest in order to achieve a better return than they'd receive from other forms of saving, such as bank deposits. While it may be tempting to squirrel away cash in a bank, pulling out of the market when it's falling is one of the worst things you can do as you'll simply crystallise your losses.

If you'd stuck with the FTSE All-Share Index over the past 20 years, your portfolio would have increased by 361 per cent, or 7.94 per cent a year. However, if you'd pulled out and missed the best 20 days' performance, you'd have gained only 60.8 per cent, or 2.4 per cent a year [1]. Remember, though, that past performance isn't a guide to future performance.

### 2. REMEMBER YOUR OWN TIME HORIZONS AND GOALS

Many investors overreact to short-term market volatility, which isn't usually relevant to their long-term goals. Review your strategy and remind yourself why you're investing – is it for your young children's university fees or are you saving for retirement? These objectives are unlikely to have changed, even if the market has taken a tumble.

### 3. DON'T PUT ALL YOUR EGGS IN ONE BASKET

The key to long-term investment success is having a good balance of investments – for example, diversify between different types of funds, equities, property and cash. Piling all your money into one asset class is high risk. Check where your funds are invested: spread holdings over different sectors and geographical areas. Review the balance of your assets: are you exposed to too much or too little risk? For instance, if you previously had 50 per cent of your investments in equity-based growth funds, it's likely that market falls will have reduced this share as a percentage of the whole. You should check to see if this new asset allocation matches your risk profile.

### 4. CHECK YOUR EXPOSURE TO RISK

The younger you are the greater exposure to equities you might want to accept, as you have more time to make up any losses. However, if the recent ups and downs have become too much for you, consider reassessing your attitude to risk.

### 5. DRIP-FEED YOUR INVESTMENTS

Drip-feeding money into investments at regular intervals allows investors to smooth out risk through 'pound-cost averaging'. This forces you to invest in all conditions, thereby helping to avoid the poor decisions that many people make when trying to second-guess the market. When the market falls, your payment will buy more shares or units in a fund so you'll have a bigger holding when markets recover.

### 6. TAKE COUNTER MEASURES

Look at the type of investment funds you hold and make sure they are best placed to give you some protection when markets slump, but also to benefit when they bounce back. Good-quality fixed interest funds are likely to be relatively stable, whereas equity funds will be more volatile, so you should look to hold a combination in the right mix for you. You could perhaps consider absolute return funds, which aim to produce a positive return in all conditions. However, not all have produced the desired result amid the recent volatility and many charge performance fees on top of the annual management charge.

### 7. CHANGE FUNDS IF THEY'RE CONSISTENTLY UNDERPERFORMING

If certain funds are repeatedly failing to deliver, it's time to assess whether they're worth holding on to or not. Chopping and changing funds may incur management fees though, so you could consider using 'funds of funds', where the fund manager does this for you. ■

*As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment. The value and income received from property investments can go down as well as up.*

*[1] Figures correct to 07/11/11. Source: Standard Life Investments using Thomson Reuters Datastream.*

NO MATTER WHAT YOUR INVESTMENT GOALS ARE AND HOW MUCH YOU WISH TO INVEST, WE CAN WORK WITH YOU TO DEVELOP THE MOST APPROPRIATE PORTFOLIOS TO REFLECT YOUR INVESTMENT STRATEGY. THE PRICE OF UNITS IN INVESTMENT-LINKED FUNDS DEPENDS ON THE VALUE OF THE UNDERLYING ASSETS AND CAN GO DOWN AS WELL AS UP. YOU MAY NOT GET BACK AS MUCH AS YOU INVEST. PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE AND SHOULD NOT BE USED TO ASSESS THE RISK ASSOCIATED WITH THE INVESTMENT.

# REDUCING YOUR FAMILY'S INHERITANCE TAX BILL

## Let us help you find the right wealth structure or combination of structures

*Inheritance tax (IHT) doesn't only affect the very wealthy. Rising property prices over the past few decades have meant it's now an issue for an increasing number of people in the UK. So what steps can you take to ensure that your money goes to your loved ones and not to the taxman?*

### GIVE YOUR FAMILY LASTING BENEFITS

The structures into which you can transfer your assets can have lasting consequences for you and your family and it is crucial that you choose the right ones. The right structures can protect assets and give your family lasting benefits in an uncertain world.

IHT is a tax on your estate – the things that belong to you – when you die and is also sometimes payable on trusts or gifts made during your lifetime. Your estate includes the total of everything you own and a share of anything you own jointly. With appropriate planning you may be able to reduce the bill or avoid IHT altogether.

For the current 2012/13 tax year, no IHT is charged on the value of your estate up to £325,000. This is known as the 'nil rate band' and everything above that is taxed at 40 per cent.

**Things that might count towards your estate include:**

- Property
- Investments
- Insurance
- Payment from a pension plan or employee death benefit
- Other assets, for example, cars, art, jewellery, furniture
- Gifts you have made but still benefit from, for example, a house you have given away but still live in
- Certain gifts that you have made in the last seven years
- Assets held in trust from which you receive personal benefit
- If you own assets jointly, your share of their value is included in your estate

If an individual's IHT nil rate band is not used up on their death, the unused proportion can be transferred to their surviving spouse or registered civil partner. Assets passed between spouses or registered civil partners are exempt from IHT (assuming they are domiciled in the UK), regardless of their worth and how soon you die after making them. These rules also apply to gifts made to charities.

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

Bear in mind tax laws are subject to change, possibly retrospectively. Also, the rules for individuals who are not UK resident or not UK domiciled are different and therefore tax and local laws should be considered by a potential investor.

### PLANNING FOR INHERITANCE TAX

There are a number of options that could, if appropriate, potentially reduce your family's IHT bill.

**Make a will –** an effective will could help reduce an IHT bill.

**Look into exemptions –** there are a number of exemptions you can use to reduce the value of your estate. For example, moving assets between spouses or registered civil partners does not create an IHT liability.

**Consider gifts –** if you can afford to give away some of the assets you own, it may be possible to reduce the size of your estate

**Think about life assurance –** a life assurance plan written in an appropriate trust won't actually lessen the IHT bill but the proceeds could be used to help pay the bill on death.

**Consider trusts –** if structured carefully, trusts can help to reduce or even eliminate an IHT liability. ■

OUR EXPERTISE IS IN FINDING THE RIGHT WEALTH STRUCTURE OR COMBINATION OF STRUCTURES FOR YOU. WE OFFER MANY DIFFERENT WEALTH-STRUCTURING SOLUTIONS. TO FIND WHICH COMBINATION IS BEST FOR YOU AND YOUR FAMILY, PLEASE CONTACT US FOR MORE INFORMATION - DON'T LEAVE IT TO CHANCE.

*Levels and bases of and reliefs from taxation are subject to legislative change and their value depends on the individual circumstances of the investor. The Financial Services Authority does not regulate estate planning, wills or trusts.*

# ‘GOLDEN AGE’ OF PENSIONERS

## Only a quarter of Britons believe they will be better off than their parents when they retire

> LESS THAN A QUARTER (22 PER CENT) OF BRITONS ARE CONFIDENT THEY WILL HAVE SUFFICIENT RESERVES OF INCOME TO STOP WORKING, PARTICULARLY GIVEN THE CURRENT LEVEL OF ECONOMIC UNCERTAINLY.

*Research [1] from Schroders reveals that just 26 per cent (10.3 million) of Britons believe they will be better off than their parents’ generation when they retire. The findings reveal that 44 per cent (17.2 million) of people believe they will be worse off in retirement than their parents, fostering feelings of jealousy of a perceived ‘golden generation’ of pensioners who have benefited from significant gains in the value of their property and generous final salary pensions.*

### DESPERATELY TRYING TO BOOST RETIREMENT INCOME

The biggest fear that Britons (79 per cent) have about retirement is having too low an income to fund their desired standard of living or inflation eroding the value of their savings, while 1 in 20 (5 per cent) cite their biggest fear as being forced to sell their home. In response to these fears, Britons with pensions are desperately trying to boost their retirement income by increasing their monthly contributions.

Over one quarter (27 per cent) of private pension holders have increased their contributions in the last 12 months. Of those willing to disclose the additional amount they were investing, the average monthly increase in contributions was £84.

### SUFFICIENT RESERVES OF INCOME TO STOP WORKING

Less than a quarter (22 per cent) of Britons are confident they will have sufficient reserves of income to stop working, particularly given the current level of economic uncertainly. As a consequence, one in five (21 per cent) people are planning to extend their anticipated retirement date. Of those planning to extend their retirement, they anticipate working on average another six and a half years, which would see millions of Britons working well into their seventies.

### INVEST MORE TO HAVE A SUFFICIENT INCOME TO FUND RETIREMENT

There is a fear among many in employment that their standard of living and income will drop dramatically in retirement. With the closure of final salary schemes, reduced annuity rates and continued inflationary pressures, many Britons feel they will be worse off in retirement than their parents. While the ‘golden age’ of pensioners who benefited from rapid house price inflation and generous pension schemes is well behind us, millions of people recognise that they will need to work longer and invest more if they are to have sufficient incomes to fund their retirement. ■

NO MATTER WHAT YOUR RETIREMENT GOALS ARE AND HOW MUCH YOU WISH TO INVEST, WE CAN WORK WITH YOU TO DEVELOP THE BEST SOLUTIONS FOR YOU. DON’T DELAY, PLEASE CONTACT US FOR A REVIEW OF YOUR PARTICULAR SITUATION.

*[1] On 16-17 December 2011, Vision Critical conducted an online survey among 2,003 randomly selected British adults who are Springboard UK panellists. The margin of error, which measures sampling variability, is +/- 2.2 per cent. The results have been statistically weighted according to the most current education, age, gender and regional data to ensure samples representative of the entire adult population of the United Kingdom. Discrepancies in or between totals are due to rounding.*

ONLY 26% OF PEOPLE BELIEVE THEY WILL BE BETTER OFF THAN THEIR PARENTS WHEN THEY RETIRE

THE MAIN FEAR OF 79% OF BRITONS LOOKING AHEAD TO RETIREMENT IS THAT THEIR INCOME WILL BE TOO LOW OR THAT INFLATION WILL ERODE THEIR SAVINGS

FEAR RESULTED IN MORE THAN ONE QUARTER (27%) OF THOSE WITH PRIVATE PENSIONS INCREASING THEIR CONTRIBUTIONS IN THE LAST 12 MONTHS

# ARE YOU UNPROTECTED AND AT RISK OF FINANCIAL HARDSHIP?

## Put some shock absorbers in place to deal with the unexpected

*Awareness of 'protection' products is high but a worrying number of people are failing to take action, leaving their families vulnerable to change. Research from Scottish Widows shows that nearly three quarters (74 per cent) of people are putting their families' financial security at risk by failing to protect their future through life insurance, critical illness or income protection.*

### VULNERABLE FAMILIES

The fourth Scottish Widows Protection Report, based on research among more than 5,000 UK adults [1], shows a marked annual decline in the number of people taking out life insurance (38 per cent, down 6 percentage points from 2011), income protection (5 per cent, down 2 percentage points) and critical illness cover (11 per cent, down 1 percentage point), leaving themselves and their families vulnerable should the unexpected happen and their circumstances change.

### CHANGE IN ECONOMIC CIRCUMSTANCES

Against this backdrop of decreased protection, the report indicates that families are even more vulnerable to change in their economic circumstances in 2012. Over half of respondents (52 per cent) now rely on just one income, echoing recent concerns from the Institute of Fiscal Studies, who stated that average UK household incomes have dropped by 6.4 per cent in real terms over the last two years.

### SURVIVING FINANCIALLY

More people are saving (up 5 percentage points from 2011) and nearly 40 per cent of people are paying attention to paying off their household debts. However, even though the number of people saving has increased, respondents have little confidence that their savings will cover them in the event of a change of circumstances, with 60 per cent believing they would only survive financially for a short period of up to six months.

### LOSING YOUR INCOME

Almost one in three households (28 per cent), report that they would have used up their savings within a month if they lost their income, a fifth of people would struggle to pay their mortgage and a third would find it difficult to cover their household bills within a year of losing their income.

In the event of losing a partner, 29 per cent of people say they would need to rely on their savings to cope financially, with 16 per cent saying they would turn to state benefits, even as worries over spending cuts prevail. 14 per cent admit that they just don't know how they would cope should something happen to their partner.

### ESSENTIALS VS LUXURIES

The findings demonstrate that more people consider tangible items like having broadband (74 per cent), a car (75 per cent), a phone (57 per cent) and home ownership (57 per cent) as essential compared with protecting their family against critical illness (29 per cent) and loss of income (23 per cent).

Worryingly, more than a third of people view protecting their family in the event of illness a luxury and almost four in ten see protecting their income in the same light. A night out once a week (70 per cent), shopping trips (74 per cent), gym memberships (60 per cent) and family outings (50 per cent) are considered luxuries by many.

### WHO'S PROTECTED?

The report finds that buying a home remains the primary trigger for taking out protection cover. This was given as the main reason for one in three critical illness and 27 per cent of income protection policies.

The biggest barrier to protection, especially when it comes to critical illness cover, is cost. Of those without a policy, 22 per cent say that they cannot afford cover and 15 per cent consider it to be a waste of money.

Instead, people will often spend any disposable income left at the end of the month on more tangible items that can be seen and used immediately. However, we would firmly advise families put some shock absorbers in place to deal with the unexpected and avoid any hardship that could be caused as a result. ■

NO MATTER WHAT YOUR FINANCIAL CIRCUMSTANCES ARE, IT'S USUALLY BETTER TO HAVE SOME PROTECTION INSURANCE IN PLACE RATHER THAN NONE, AND YOU SHOULD INCREASE OR CHANGE THE TYPE OF COVER YOU HAVE AS YOUR FINANCIAL AND PERSONAL CIRCUMSTANCES CHANGE. TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US.

*[1] The fourth annual Consumer Protection Report from financial provider Scottish Widows takes an in-depth look at the habits and attitudes of the UK adult population in order to analyse their protection provision.*

*The survey was carried out online by YouGov, who interviewed a total of 5,086 adults between 4-9 January 2012. The figures have been weighted and are representative of all UK adults (aged 18+).*

# LONG-TERM CARE COSTS TO HIT £38BN A YEAR BY 2025

## Increases would be even higher if the effects of inflation were taken into account

*The Future of Long Term Care report, launched by retirement specialist LV=, shows that as life expectancy in the UK increases, the number of people who will need to make use of formal long-term care services will grow from 840,184 today to 1.1 million by 2025, an increase of 37 per cent.*

**11.5m**
The number of Britons who would use their property to cover the cost of their own long-term care

**£33,000**
The expected annual cost of long-term care in the UK per person by 2025

**37%**
Increase in percentage of people needing long-term care in UK by 2025

### COST OF LONG-TERM CARE FOR THE ELDERLY

In line with a rise in the number of Britons needing long-term care, LV= predicts the average cost of long-term care per person will rise by £7,000 to £33,000 in real terms per year by 2025 [1], an increase of 27 per cent. This puts the total cost of long-term care for the elderly in the UK at £37.9bn a year by 2025, compared to £21.8bn now [2]. Cost increases would be even higher if the effects of inflation were taken into account.

### WHAT TYPE OF LONG-TERM CARE ARE PEOPLE IN?

The Future of Long Term Care report shows that 52 per cent (438,336) of those in formal care in the UK receive it in their home (domiciliary care), while 48 per cent (401,848) are cared for in a residential home. The split between those in residential care and those receiving care at home is expected to remain consistent in the future.

For residential services in nursing and care homes, currently those with assets worth over £23,250 are not eligible for Government support [3]. This report shows that the average wealth, including assets such as investments, savings and property after mortgage, of those over age 55 in the UK is just £32,500, indicating that under the current rules many would have to fund the entire cost of care themselves with no help from the state.

### HOW WILL WE FUND LONG-TERM CARE?

While nearly a quarter of UK adults (24 per cent) expect an elderly relative to need long-term care in the future, one in four of these (7 per cent of all adults) plan to look after their loved ones themselves to avoid paying for care. Worryingly, almost half (46 per cent) of those expecting to fund care for others have not thought about how they will pay for it. Those that have say their savings (22 per cent) and salary (19 per cent) will be the main source of funding.

Nearly one in five (17 per cent) UK adults believe they will have to fund the cost of their own long-term care in the future. When asked how they would fund their own care if needed, nearly a quarter (23 per cent) said they would use their property to pay for care, either through equity release, re-mortgaging or selling their home. 18 per cent said they would use savings and 16 per cent would use their pension income.

One in seven (14 per cent) said they would rely on the state to cover their care costs, and a worried 12 per cent do not think they or their family would be able to afford any care and do not know how they will pay for it.

### WHY ARE COSTS ON THE RISE?

The biggest reasons behind the rising cost of long-term care in the future are: women working later in life when they traditionally would have provided care; families increasingly living further apart, lessening the option of care within the family; and most significantly, the rapidly increasing elderly population in the UK putting pressure on the infrastructure of care services and driving up costs [4].

The UK is facing an uncertain future on the funding of long-term care. Low interest rates and rising living costs continue to be a problem, while social care budgets are being cut, creating a worrying financial backdrop for many, especially those in retirement. It is a real concern for people who have the burden of long-term care costs approaching, as currently they could be faced with an open-ended bill that makes it difficult to plan effectively to meet these costs.

### GOVERNMENT FUNDING

The report from Andrew Dilnot, reviewing the funding system for long-term care in England, suggests that a cap on the amount people pay towards the cost of their care be set at around £35,000, and recommends that only those with assets worth over £100,000 should pay for the full cost of their care. The report from LV= reveals that 88 per cent of Britons agree there should be a cap introduced on the funding of long-term care, and 22 per cent of this group think it should be dependent on people's wealth and not set at the same level for everyone. On average, people thought the cap should be set at £14,000, much lower than the cap recommended in the Dilnot report.

The average wealth of those over age 55 is above the current limit for state funding of £23,250, meaning the cost of long-term care will need to be paid for out of their own pockets under the current rules. With the average cost per person of long-term care set to hit £33,000 per year by 2025, it won't be long before personal funds run dry. ■

OBTAINING THE RIGHT ADVICE IS ESSENTIAL. WE TAKE THE TIME TO UNDERSTAND YOUR UNIQUE NEEDS AND CIRCUMSTANCES SO WE CAN PROVIDE YOU WITH THE MOST SUITABLE PROTECTION SOLUTIONS IN THE MOST COST-EFFECTIVE WAY. FOR MORE INFORMATION, PLEASE CONTACT US.

*The LV= Future of Long Term Care report was produced by the Desk research team at Opinium Research using 2011 predictions of volume and cost for long-term care by the Personal Social Services Research Unit (PSSRU), with additional material from the London School of Economics and the Organisation for Economic Cooperation and Development (OECD) as well as survey findings from Opinium's online omnibus from 16-18 April 2012 on behalf of LV= (total sample size was 2,015 UK adults aged over 18).*

*[1] The average cost for long-term care is currently estimated at £26,000 per year; however, the Future of Long Term Care report predicted this will increase by 2.3 per cent by the year 2015. Thereafter with a projection of a cost increase of more than 10 per cent per year, the price of a year's long-term care per person could rise to more than £33,000 by the year 2025. This does not include the effects of inflation, which would increase this figure further.*

*[2] 1,149,112 (expected to be in long-term care in the UK by 2025) x £33,000 (expected cost per year by 2025) = £37,920,696,000 (or vs 2012: 840,184 x £26,000 = £21, 844,780,704).*

*[3] Excluding Scotland.*

*[4] The rising costs predicted in this report do not include the effects of inflation which would increase the predicted figures for the cost of future care further. Instead all projections are based on 2010 constant prices as calculated by the PSSRU.*

# FLEXIBILITY IN RETIREMENT

## Gain more control over when and how you can use your retirement savings

*A practical consequence of living longer is that retirement lasts longer. Pensions have to stretch further. Pension legislation is always on the move but keeping up to date with the latest changes could open up new opportunities for you in retirement. In April 2011, some of the most significant changes in pension legislation for five years were announced. Some of these changes have created the very appealing prospect, for people aged 55 and over, of gaining much more control over when and how they can use their retirement savings.*

### LEAVE YOUR PENSION INVESTED FOR LONGER

As a consequence of calls for more flexibility, for example, the Government has done away with the 'age 75' rule that effectively obliged anyone with private pension savings to use them to buy an annuity at that age. This change means that you can now, if you wish, leave your pension invested for longer. And if you want to take an income from it at the same time (known as 'drawdown'), the ways in which you can do this have also been made more flexible.

### MEETING CERTAIN ELIGIBILITY CRITERIA

For example, under the current rules, if you meet certain eligibility criteria, you can now take as much as you want from your pension without the maximum income restrictions that apply to conventional drawdown arrangements. To be eligible for this facility – known as 'flexible drawdown' – you have to show that you already have a minimum 'secure pension income' of £20,000.

While for many people, buying an annuity is likely to remain the most appropriate method of accessing their pension income, some will want to take advantage of these enhanced drawdown facilities.

### OPTIMISE YOUR TAX LIABILITIES

Flexible drawdown could, for example, be used to meet one-off large expenditure items as they arise or to optimise your tax liabilities. It can be a way to pass money through the generations, either by 'gifting' regular payments, for example into trusts, or as pension contributions to children using 'normal expenditure' rules so as to help avoid inheritance tax.

In moving money out of your pension fund before you die, you will be paying income tax on such payments but at a rate that is lower than the 55 per cent tax charge payable on a lump sum payment from your pension fund when you die.

### AGE-RESTRICTED BENEFIT REMOVED

Another age-restricted benefit where the rules have been eased is the opportunity to take tax-free cash – typically a quarter of your pension pot – when you first start to take your pension benefits. Until April 2011, if you hadn't taken your tax-free cash by age 75, you lost the chance to do so. Now that restriction is removed too.

Depending on your circumstances, all these changes may well sound like good news, but there's one important thing to be aware of. Just because the rules about when and how you take pension benefits have changed, it doesn't mean your pension contract will have changed as well.

### REFLECTING THE NEW LEGISLATION

If the terms of your contract have not been updated to reflect the new legislation, you could find that you can't take advantage of them. You could still find yourself obliged to buy an annuity at age 75. And if you haven't taken your tax-free lump sum at that age, you could still lose the opportunity to do so.

To make sure you can benefit from the current rules, you may need to transfer your pension savings to a provider who is offering these more flexible options. You could do this even if you are already taking drawdown income.

### PLANNING CAN HELP SAVE YOU TAX

We can also review other important aspects of your pension arrangements and identify ways in which you can reduce your tax liability. As mentioned previously, if you have already taken tax-free cash from your fund but not yet taken any income from it, the tax that applies to the remainder of your pension if paid as a lump sum when you die – at any age – is now 55 per cent. It used to be limited to 35 per cent for pension holders dying before the age of 75, with up to 82 per cent applicable on death after this age. The April 2011 rules means that a standard rate now applies whatever the age at death. ■

*Levels and bases of and reliefs from taxation are subject to legislative change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. Pension drawdown can leave your funds open to investment risk and is not suitable for everyone.*

HOWEVER BLEAK THE CURRENT ECONOMIC CLIMATE MAY APPEAR, PENSIONS ARE FOR THE LONG TERM AND RELATIVELY SIMPLE ADJUSTMENTS MADE NOW COULD MAKE A HUGE DIFFERENCE TO THE OPTIONS AVAILABLE TO YOU IN THE FUTURE. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

# PENSIONS ROULETTE

> SINCE 2008, MORE THAN A QUARTER (27 PER CENT) OF PENSION HOLDERS HAVE STOPPED SAVING INTO THEIR FUND AND HAVE NOT RESTARTED PAYMENTS, WHILE 6 PER CENT TOOK A PENSIONS HOLIDAY AND THEN RECOMMENCED PAYMENTS.

## Retirees tap into savings earmarked for retirement

*More than a quarter (27 per cent) [1] of UK adults with a private pension have stopped making payments into their fund since 2008 because of tough economic conditions. One in five (21 per cent) of those aged 55 years or older have dipped into their retirement savings since 2008.*

### A RESULT OF THE ECONOMIC DOWNTURN

Increasing numbers of adults in the UK are either taking a 'pension holiday', drawing on savings earmarked for retirement or downsizing as a result of the economic downturn and the rising costs of living.

According to research from Schroders, we are witnessing a trend whereby people in employment are playing a dangerous game of 'pensions roulette' – risking their long-term financial security by drawing on assets set aside for retirement.

Since 2008, more than a quarter (27 per cent) of pension holders have stopped saving into their fund and have not restarted payments, while 6 per cent took a pensions holiday and then recommenced payments.

### THE LEAST TIME AVAILABLE TO TOP UP PENSION POTS

Interestingly, the largest percentage who stopped paying into a pension were those closest to retirement, those aged 55 plus (32 per cent). This is a worrying trend, as these individuals have the least time available to top up their pension pots from employment income.

One in ten Britons would consider selling their home in order to release some cash and more than one in six (16 per cent) pension holders have dipped into their retirement savings to make ends meet since the recession commenced in 2008. However, this rises to more than one in five (21 per cent) for those aged 55 plus and not yet retired.

Of those disclosing how much they withdrew from their savings, the average amount taken out was £11,157, with 17 per cent taking between £5,000 and £9,999 from reserves.

### GAMBLING WITH FINANCIAL SECURITY IN RETIREMENT

Millions of Britons are gambling with their financial security in retirement. Worryingly high numbers have stopped paying into their pension, or have drawn on savings earmarked for retirement to fund everyday living expenses. While this is completely understandable in such tough economic times, by doing this they are risking not having sufficient income to fund retirement. Everyone is being squeezed in terms of disposable income but it is essential that people start planning for their retirement at a younger age.

### GENERATING AN INCOME TO COVER LIVING COSTS

People need to assess their projected expenditure in retirement and ensure they will have enough income to cover these costs. It is not merely a question of building a big pot of capital; it is about ensuring this is invested so it generates an income to cover living costs once a person has stopped working. ■

WE CAN HELP YOU MAXIMISE YOUR INCOME POTENTIAL AND DEVELOP AN INVESTMENT STRATEGY FOR RETIREMENT INCOME GENERATION – SO THAT IF YOUR SITUATION CHANGES, YOUR INCOME ARRANGEMENTS CHANGE TOO. PLEASE CONTACT US TO LOOK AT THE OPTIONS AVAILABLE TO YOU.

*[1] On the 16-17 December 2011, Vision Critical conducted an online survey among 2,003 randomly selected British adults who are Springboard UK panellists. The margin of error, which measures sampling variability, is +/- 2.2 per cent. The results have been statistically weighted according to the most current education, age, gender and regional data to ensure samples representative of the entire adult population of the United Kingdom. Discrepancies in or between totals are due to rounding.*

**70%**
The percentage of retired people who are potentially missing out on a higher income in their retirement

> ACCORDING TO MGM ADVANTAGE, 40 PER CENT OF UK ADULTS AGED 55 AND OVER HAVE OR HAVE HAD HIGH BLOOD PRESSURE AND 33 PER CENT HAVE HAD HIGH CHOLESTEROL, BOTH OF WHICH ARE CONDITIONS THAT COULD QUALIFY THEM FOR A HIGHER PENSION INCOME.

# COULD YOU BE ENTITLED TO A HIGHER LEVEL OF RETIREMENT INCOME?

## If you have underlying health conditions you should talk to us

*Nearly three quarters (72 per cent) of UK adults aged 55 and over are unaware that certain medical conditions could entitle them to a higher level of pension income through their annuity provider, according to research [1] from MGM Advantage.*

The research also reveals that 70 per cent of retired people are potentially missing out on a higher income in their retirement because they are not taking advantage of the higher income offered by providers if they have underlying health conditions that would qualify them for an enhanced annuity. Qualifying conditions for an enhanced annuity include high blood pressure, high cholesterol, heart disease and diabetes.

### A HIGHER LEVEL OF INCOME IN RETIREMENT

Furthermore, 71 per cent of employed people aged 55 plus are also unaware that certain medical conditions could entitle them to a higher level of income once they have retired. Nearly four in five (78 per cent) women aged 55 plus and nearly two thirds (65 per cent) of men aged 55 plus fail to understand that they could be eligible for higher income levels in retirement. These are people who are fast approaching retirement and should already be thinking about their retirement income options, especially when living costs and longevity are consistently rising.

### UNDERLYING HEALTH CONDITIONS

It is an unfortunate fact of life that as we get older, we are more at risk of getting underlying health conditions. If appropriate, those buying an annuity should have a health check and be sure to inform their annuity provider of any health conditions to see if they qualify for an enhanced annuity. The difference between a standard and an enhanced annuity can be significant and could make a real difference, particularly when the cost of living is squeezing finances.

### QUALIFYING FOR A HIGHER PENSION INCOME

According to MGM Advantage, 40 per cent of UK adults aged 55 and over have or have had high blood pressure and 33 per cent have had high cholesterol, both of which are conditions that could qualify them for a higher pension income.

However, one in seven (14 per cent) of over 55s still working said it had been more than five years since they last had a health check, with a further 11 per cent not able to remember when they last had a test.

### GETTING THE BEST ANNUITY RATE POSSIBLE

To ensure you are getting the best annuity rate possible, you should also exercise the Open Market Option and shop around for the best annuity rate. MGM Advantage warns that people who do not mention any underlying health issue could risk losing out financially as enhanced annuities pay out on average 20.68 per cent more for men and 22.15 per cent more for women [2]. ■

FIND OUT MORE ABOUT WHICH ANNUITY TYPES AND OPTIONS ARE AVAILABLE TO YOU AND WHAT YOU SHOULD CONSIDER PRIOR TO PURCHASING ONE. FOR MORE INFORMATION, PLEASE CONTACT US TO DISCUSS YOUR PARTICULAR SITUATION.

*[1] The research was conducted online by Research Plus between 7-17 October 2011 with 2,086 UK adults aged 55 years and over, of which 1,261 were retired and 825 non retired.*

*[2] According to stats from the MGM Advantage Annuity Index September 2011.*

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