McEwanWallace
Wealth Management

Undivided
attention

talking money

SEPTEMBER/OCTOBER 2012

A EUREKA MOMENT!
Discovering the right investment decisions to grow your wealth

TIME IS RUNNING OUT
Should you be taking advantage of current retirement planning rules?

ANNUITY CHALLENGE
Shopping around for the best deal could really pay off

THE CHANGING FACE OF RETIREMENT
A chance to explore new opportunities or carry on working on your terms

CONTROLLING INVESTMENT RISK OVER TIME
Achieving some peace of mind through market highs and lows

PASSING ON YOUR WEALTH
Make sure your loved ones get your hard-earned money and not the taxman

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

Whatever your financial goals might be, we can help you grow your wealth so that you can enjoy it and pass it on. As your life changes over time, it's important to ensure that your financial objectives continue to meet your requirements. There are many different tax-efficient ways to grow your wealth. On page 08, find out how we can help you understand the choices and make the investment decisions that are right for you.

A generation ago, retirement meant stopping work completely and winding down. By contrast, the present generation – the baby-boomers – are much more likely to see it as a fresh start with a chance to explore new opportunities or carry on working on their terms. Read the full article on this page.

Estate preservation doesn't only affect the very wealthy. Rising property prices have meant that it's now an issue for an increasing number of people. So what are the areas you need to consider to protect your wealth? Turn to page 06.

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

Need more information? Simply complete and return the 'Information Request' on page 03.

THE CHANGING FACE OF RETIREMENT

A chance to explore new opportunities or carry on working on your terms

A generation ago, retirement meant stopping work completely and winding down. By contrast, the present generation – the baby-boomers – are much more likely to see it as a fresh start with a chance to explore new opportunities or carry on working on their terms.

MORE AFFLUENT LIVES

We're living longer, healthier and often more affluent lives. Today some retirees can expect to spend 20 or more years in retirement. The state pension age is rising, so many of us may have to work for longer before we can claim our pension benefits. It's unlikely that the state will become more generous in the future, and fewer companies are offering final salary pension schemes.

TAKING GREATER RESPONSIBILITY

All of which means that we will need to take greater responsibility for our pension plans. On a positive note, the pension system has become more flexible, so now you don't have to purchase an annuity with your pension pot if this option is not appropriate for your particular situation. In addition, if you have a Self-Invested Personal Pension (SIPP) you have the option of leaving your pension pot invested and drawing an income from it, subject to certain limitations.

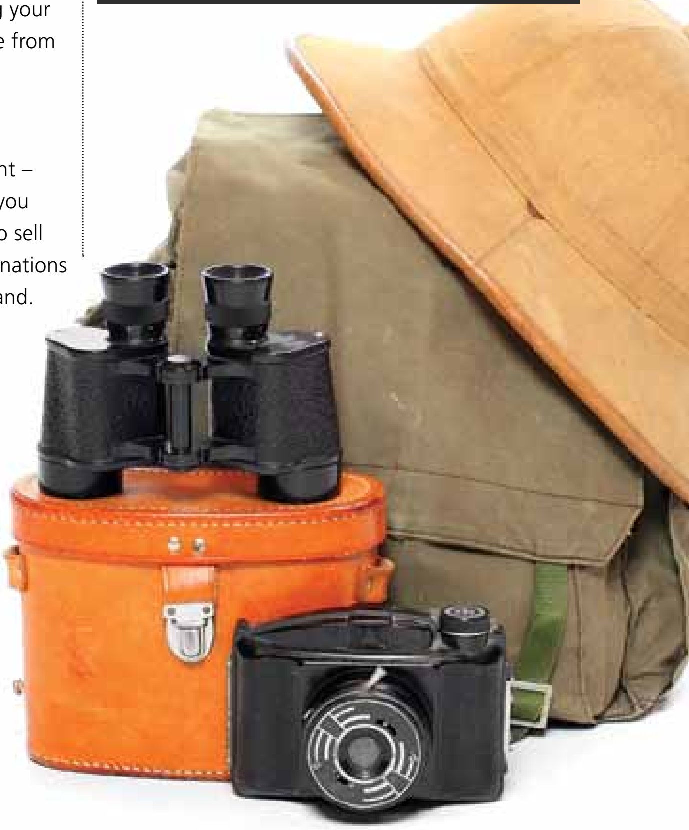
CREATE YOUR OWN VISION

These days there is no blueprint for retirement – you have to create your own vision of what you want from life after work. You might want to sell up and start a new life abroad. Popular destinations include Spain, France, USA, Canada and Ireland. Or you might prefer to stay in the UK but move closer to family and friends.

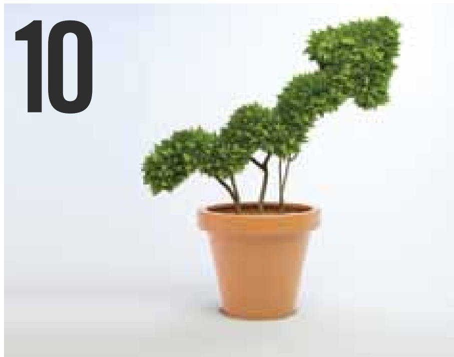
At some point you might choose to downsize, perhaps to release some capital, cut your outgoings or help your children financially.

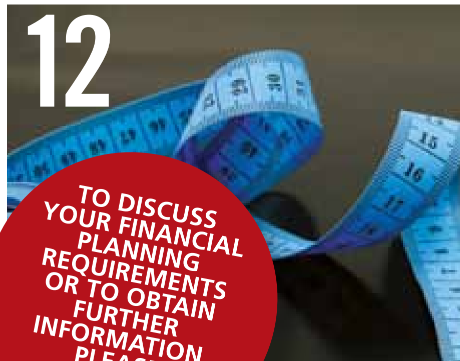
Of course, retirement doesn't have to mean a full stop to your working life. You might ease yourself in, cutting back the number of days a week that you work, or take on contract work. You might even decide to become an 'olderpreneur' and start your own business. ■

REGARDLESS OF THE LIFE STAGE YOU HAVE ARRIVED AT, IT'S IMPORTANT TO RECEIVE THE RIGHT ADVICE IN PREPARATION FOR YOUR RETIREMENT. WE CAN HELP YOU MAKE THE MOST OF THE DIFFERENT AND SOMEWHAT COMPLEX PLANNING OPPORTUNITIES. TO FIND OUT MORE, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

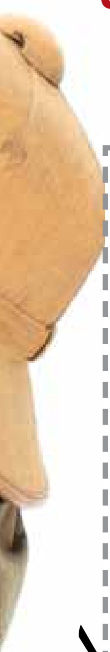


IN THIS ISSUE





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)

Name ______________________

Address ______________________

____

____

______________________ Postcode ______________________

Tel. (home) ______________________

Tel. (work) ______________________

Mobile ______________________

Email ______________________

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.

MAXIMISING YOUR RETIREMENT INCOME

What you need to consider with less than five years to retirement

The closer you get to taking your pension, the greater the need to preserve your savings and ensure they will last all through your retirement. In addition, you'll need to consider whether you need to make changes to your investments as you approach retirement.

With less than five years to go before retirement, there is still a lot you could do to maximise your eventual pension income. Take a look at our checklist to see how we could help you make the most of your pension pot.

IN THE RUN UP TO YOUR RETIREMENT

- Request up-to-date statements for your personal and company pensions
- Get an up-to-date state pension forecast at direct.gov.uk
- Trace any lost pensions through the Pension Tracing Service at direct.gov.uk
- Include any investments and savings when assessing your retirement income
- Seek professional financial advice if there's a significant shortfall, as delaying or phasing retirement could be an option
- Reduce any potential investment risk to protect your pension from any downturns in the stock market as you approach retirement
- If possible, augment your pension by increasing your contributions and/or adding lump sum payments
- Take advantage of any unused pension tax allowance. Current rules allow you to carry unused allowances forward for three years
- Think about whether you want to take your pension as an annuity or through income drawdown

WHAT SHOULD YOU BE DOING IN THE RUN-UP TO RETIREMENT? TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US FOR MORE INFORMATION. DON'T LEAVE IT TO CHANCE.

- If you want to take an annuity, decide which type. An annuity can, for example, increase by a set percentage or be linked to the rate of inflation
- Look at impaired life annuities if you have any serious health issues
- If appropriate, consider consolidating your pension or pensions to a Self-Invested Personal Pension (SIPP) if you want to take income drawdown
- Consider whether you want to take 25 per cent of your pension pot as a tax-free lump sum and think about how you might use this money
- Write a will or review any existing will you have in place
- Check what will happen to your pension if you die

> **"IF YOU WANT TO TAKE AN ANNUITY, DECIDE WHICH TYPE. AN ANNUITY CAN, FOR EXAMPLE, INCREASE BY A SET PERCENTAGE OR BE LINKED TO THE RATE OF INFLATION."**

- Assess the value of your estate for inheritance tax (IHT) purposes and consider ways to reduce a potential liability
- Seek professional advice if the value of your estate is significantly higher than the nil rate IHT band (currently £325,000) or your financial affairs are complicated

All figures relate to the 2012/13 tax year. A pension is a long-term investment, and the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. The Financial Services Authority does not regulate estate planning, wills or trusts.

CONTROLLING INVESTMENT RISK OVER TIME

Achieving some peace of mind through market highs and lows

In the light of recent market volatility, it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. In a fluctuating market, investing regularly – a strategy known as 'pound-cost averaging' – can help smooth out the effect of market changes on the value of your investment and is one way to achieve some peace of mind.

INCREASING THE LONG-TERM VALUE

This simple, time-tested method for controlling risk over time enables you, as an investor, to take advantage of stock market corrections. By using pound-cost averaging, you could increase the long-term value of your investments. There are, however, no guarantees that the return will be greater than a lump sum investment and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

INVESTING MONEY IN EQUAL AMOUNTS

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

Alternatively, you could pound-cost average on an open-ended basis by investing, say, £1,000 every month. This principle means that you invest no matter what the market is doing. Pound-cost averaging can help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

TAKING ADVANTAGE OF MARKET DOWN DAYS

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

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

COMMITTING TO MAKING REGULAR CONTRIBUTIONS

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

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

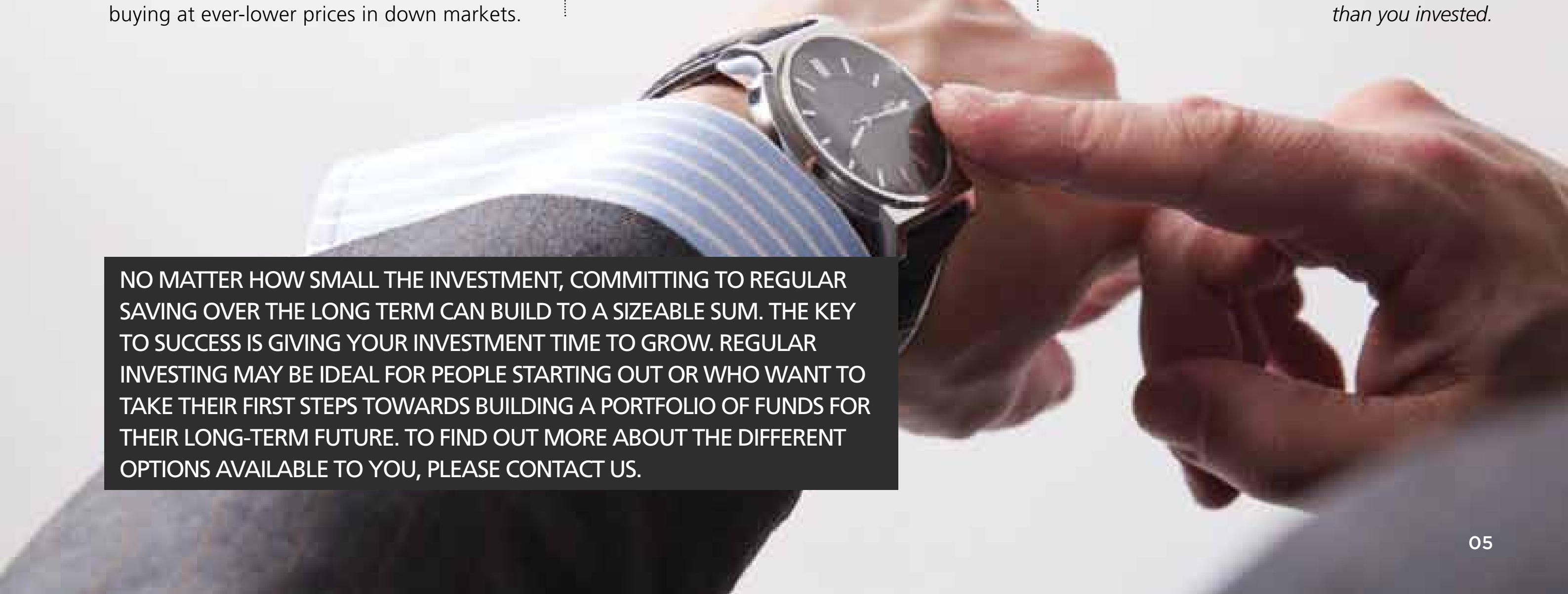
AVERAGING OUT THE PRICE YOU PAY FOR MARKET VOLATILITY

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

GIVING YOUR SAVINGS A VALUABLE BOOST

Any costs involved in making the regular investments will reduce the benefits of pound-cost averaging (depending on the size of the charge relative to the size of the investment and the frequency of investing). As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost. ■

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.



NO MATTER HOW SMALL THE INVESTMENT, COMMITTING TO REGULAR SAVING OVER THE LONG TERM CAN BUILD TO A SIZEABLE SUM. THE KEY TO SUCCESS IS GIVING YOUR INVESTMENT TIME TO GROW. REGULAR INVESTING MAY BE IDEAL FOR PEOPLE STARTING OUT OR WHO WANT TO TAKE THEIR FIRST STEPS TOWARDS BUILDING A PORTFOLIO OF FUNDS FOR THEIR LONG-TERM FUTURE. TO FIND OUT MORE ABOUT THE DIFFERENT OPTIONS AVAILABLE TO YOU, PLEASE CONTACT US.

PASSING ON YOUR WEALTH

Make sure your loved ones get your hard-earned money and not the taxman

Estate preservation doesn't only affect the very wealthy. Rising property prices have meant that it's now an issue for an increasing number of people. So what are the areas you need to consider to protect your wealth?

WRITE A WILL

A will is an essential part of your financial planning. Not only does it set out your wishes but if you die without a will your estate will generally be divided according to the rules of intestacy, which may not reflect your wishes.

This can be particularly problematic for unmarried couples, as the surviving partner doesn't have any automatic rights to inherit, but it can also create problems for married couples and civil partners.

Married couples or civil partners inherit under the rules of intestacy only if they are actually married or in a registered civil partnership at the time of death. So if you are divorced or if your civil partnership has been legally ended, you can't inherit under the rules of intestacy. But partners who separated informally can still inherit under the rules of intestacy.

INHERITANCE TAX

While a will helps to ensure that your estate is distributed according to your wishes, the inheritance tax (IHT) rules mean that one of your beneficiaries could be the taxman.

Your estate is made up of everything you own minus any debts such as mortgages, loans and your funeral expenses. If the value of your estate exceeds the IHT nil rate band (currently £325,000), the surplus will be taxed at 40 per cent.

An extra rule applies to married couples and registered civil partners. The transferable nil rate band means that the surviving spouse or partner can use any of their partner's unused nil rate band (NRB).

MINIMISING YOUR INHERITANCE TAX LIABILITY

Having paid tax throughout our lives, few of us want to leave the taxman more when we die and there are a number of ways to reduce the potential amount that will need to be handed over.

GIFTS

Giving away your estate can be an effective way to reduce a future IHT liability.

Exempt Transfers: these are gifts where IHT will never be payable.

Potentially Exempt Transfers: these can become exempt from IHT if you survive for seven years from when you make the gift.

Chargeable Lifetime Transfers: these may incur an immediate IHT charge of 20 per cent. Further IHT may be payable if you die within seven years of making the gift.

To avoid making a Gift with Reservation, which will not reduce your estate for IHT, you must give away the asset you are gifting completely.

TRUSTS

Sometimes giving money outright might not be the best solution. For instance, you might want to give money to a child but be worried about how they might spend it, or you might want to leave some money for grandchildren but do not yet know how many you'll have.

In these situations, a trust can be a good option. Trusts may allow you to reduce the value of your estate but retain some control over who receives the gift and when. This is a very complex area, so it is important to seek professional advice when considering this option.

INSURANCE

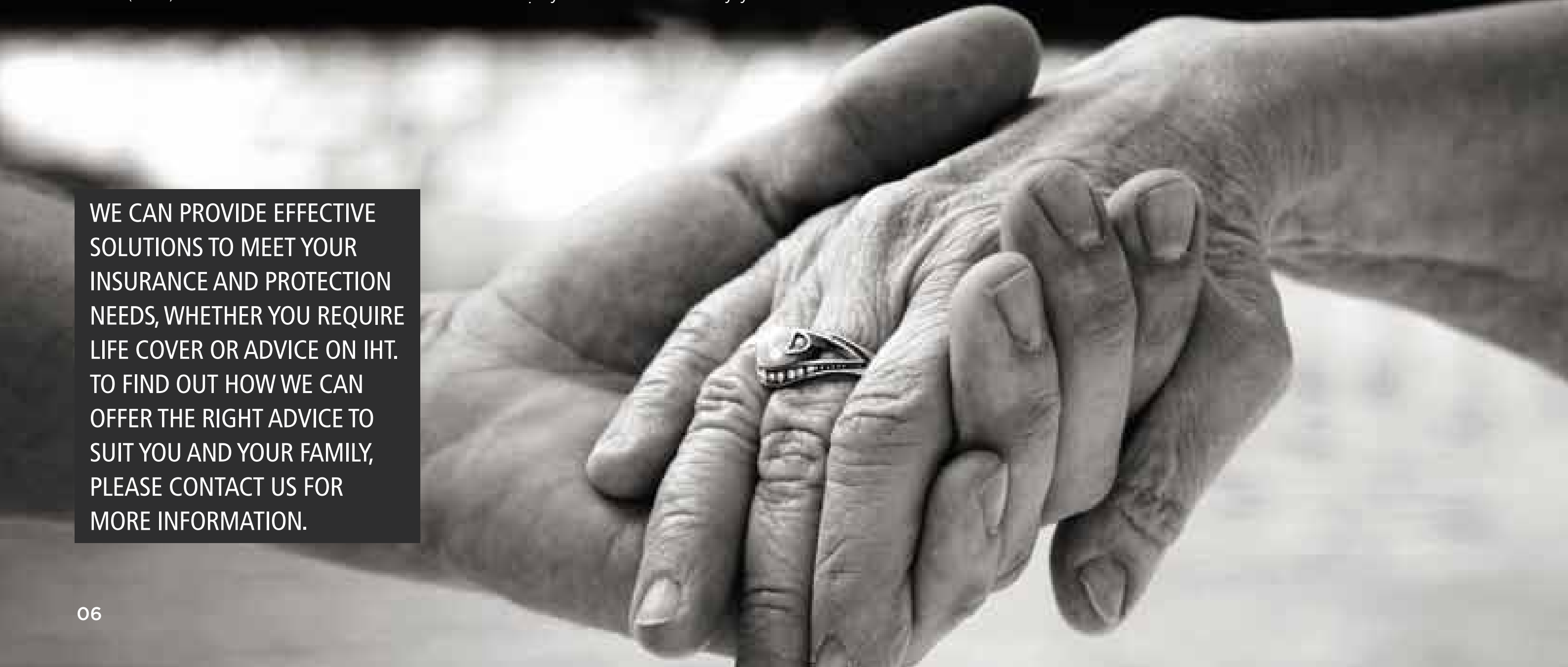
If it is likely that IHT will be payable on your estate, a whole-of-life policy written under an appropriate trust can be used to ensure that funds are available to pay all or some of any future IHT bill.

Provided you pay the premiums, the proceeds of the policy will be paid to your estate when you die. It is vital to have the policy written under an appropriate trust to ensure that the money paid out by the policy is outside your estate. This ensures that the money can be used to settle the IHT tax bill rather than add to it.

PENSIONS

In certain situations, a lump sum may be payable from a pension plan when the member dies. Depending on the scheme rules, it may be possible for the member to nominate an individual or a trust to receive this lump sum and to make this payment tax-efficient. ■

All figures relate to the 2012/13 tax year. The Financial Services Authority does not regulate estate planning, wills or trusts.



WE CAN PROVIDE EFFECTIVE SOLUTIONS TO MEET YOUR INSURANCE AND PROTECTION NEEDS, WHETHER YOU REQUIRE LIFE COVER OR ADVICE ON IHT. TO FIND OUT HOW WE CAN OFFER THE RIGHT ADVICE TO SUIT YOU AND YOUR FAMILY, PLEASE CONTACT US FOR MORE INFORMATION.

IMPROVE YOUR CHANCES OF ACHIEVING THE RETIREMENT YOU WANT

We can make sure that your plan is on track for meeting your retirement goals

Understanding how much you need to contribute towards a pension in order to produce the income you need or desire in retirement should be a key part of your financial plan. To arrive at this figure, the calculation needs to take into account any other assets you have earmarked for the long term, inflation, potential future fund growth and any state pension you are entitled to.

MAXIMISE YOUR TAX RELIEF

Pensions remain especially attractive to higher rate taxpayers. Although recent Budgets have been preceded by talk of ending higher rate relief, it's still currently the case that up to 50 per cent of the cost of pension contributions can be picked up by HM Revenue & Customs but, if applicable to you, time is running out as this will reduce to 45 per cent from 6 April 2013.

EVERY POUND COUNTS

Many employers operate a scheme that promises to match your contributions on a one-for-one basis. In other words, if you commit to paying, say, 5 per cent into your pension, your employer will do likewise. If you only pay 3 per cent, your employer may only pay 3 per cent. Such incentives provided by the employer are extremely attractive, especially when combined with tax relief.

PENSION INVESTMENT FOCUS

There will typically be a wide range of investment funds in which to invest your pension contributions. If you are ten years or more away from retirement, investing the bulk of the fund in equities could enable you to produce a bigger pension than a more cautious approach.

Although many investors are cautious of the stock market during this economic climate, it is important to focus on the long term. In reality, in the short term it matters little what your pension fund is worth in a year or two if you have 20 years or more before you retire.

CONSOLIDATING YOUR POT

With today's mobile workforce, most people may accumulate several pension plans. Understand what these are worth, whether they are performing well and what you are being charged. In some cases, making the most of these assets can bring the financial choice of retirement closer by several years. It could make sense to consolidate your various pots by moving old money-purchase pensions to your current employer's scheme if the charges are lower.

REDUCING YOUR EXPOSURE

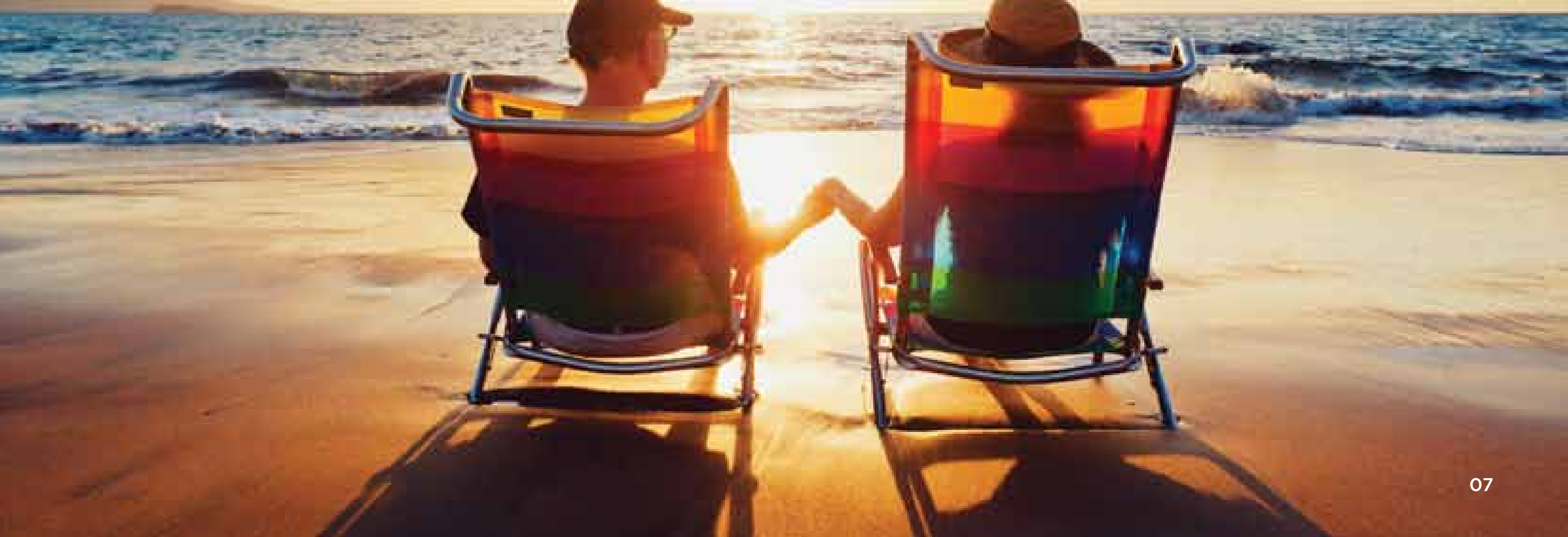
As retirement approaches, gradually reduce your exposure to shares by switching to lower-risk funds during the six or seven years before retirement. Many defined contribution schemes offer 'lifestyle' funds that do this automatically, thereby largely mitigating the effect of any last-minute stock market downturns.

AN INCOME FOR LIFE

It is vital to understand your options at retirement. You will have the choice of taking the pension offered by your own scheme or shopping around for a better annuity rate. If you are not in perfect health, you might qualify for an enhanced annuity from one of a number of specialist providers. Irrespective of your state of health, if you have a larger pension fund, consider income drawdown. This allows you to draw an income, while staying in control by maintaining the pension pot in your own name. ■

YOU SHOULD REVIEW YOUR PENSION ON A REGULAR BASIS TO MAKE SURE THAT IT'S ON TRACK TO MEETING YOUR RETIREMENT GOALS. AS YOU MOVE THROUGH DIFFERENT PHASES OF YOUR LIFE, YOU MAY ALSO BE ABLE TO INCREASE YOUR MONTHLY CONTRIBUTIONS, WHICH COULD IMPROVE YOUR CHANCE OF ACHIEVING THE RETIREMENT YOU WANT. IF YOU'D LIKE TO FIND OUT MORE, PLEASE CONTACT US. DON'T LEAVE IT TO CHANCE.

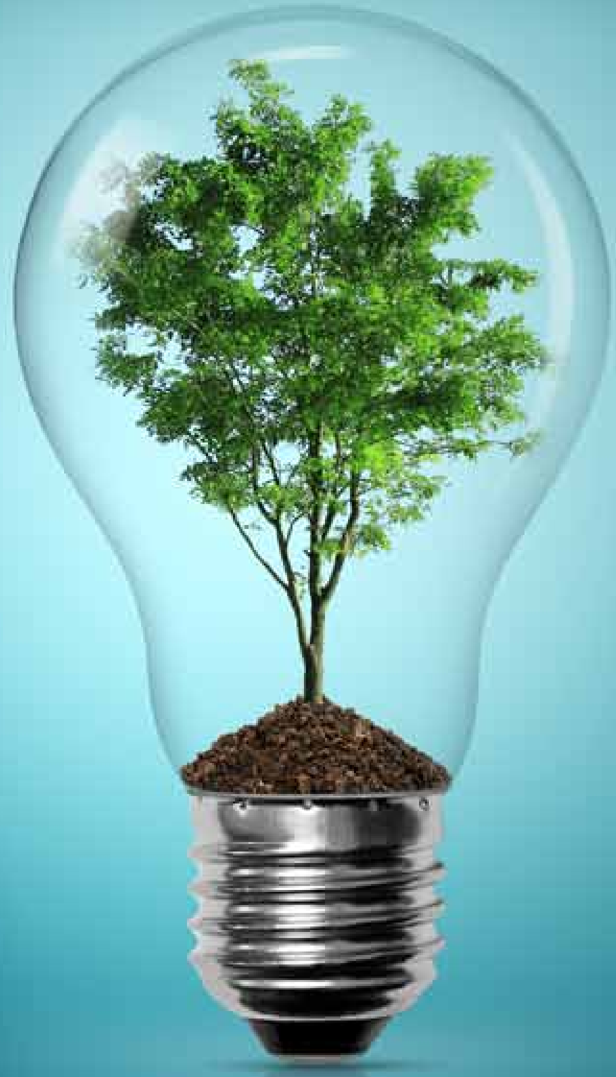
Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change. The value of investments and income from them may go down. You may not get back the original amount invested. Pension drawdown can leave your funds open to investment risk and is not suitable for everyone.



£10,600
Annual capital gains tax - free allowance for each individual

10%
The percentage of income tax payable on the dividends of shares for basic rate tax payers

£11,280
Annual Individual Savings Account (ISA) limit



A EUREKA MOMENT!

Discovering the right investment decisions to grow your wealth

Whatever your financial goals might be, the ultimate aim is to grow your wealth so that you can enjoy it and pass it on. As your life changes over time, it's important to ensure that your financial objectives continue to meet your requirements.

> THE TYPE AND AMOUNT OF TAX PAYABLE WILL DEPEND ON THE NATURE OF YOUR INVESTMENTS AND ON YOUR INCOME LEVEL. FOR HIGHER-RATE AND ADDITIONAL-RATE TAXPAYERS, RETURNS FROM INVESTMENTS CAN BE SUBJECT TO SIGNIFICANT TAXES.

There are many different tax-efficient ways to grow your wealth. We can help you understand the choices and make the investment decisions that are right for you. This will depend on your life priorities, your goals and your attitude to risk.

TAX ON INVESTMENTS

The type and amount of tax payable will depend on the nature of your investments and on your income level. For higher rate and additional rate taxpayers, returns from investments can be subject to significant taxes in the form of income tax, capital gains tax (CGT) or both.

CGT is a tax on the gain or profit you make when you sell something that you own, such as shares or property. This tax year there is a tax-free allowance worth £10,600 for each individual, so you'll only be charged CGT for gains on assets above this level. CGT rates are 18 per cent for basic rate taxpayers and 28 per cent for higher and additional rate taxpayers.

TAX ON DIVIDENDS

Dividends on shares are subject to income tax, with 10 per cent being deducted at source before each payment. There are three different income tax rates on UK dividends, depending on your income level: 10 per cent (basic rate taxpayers); 32.5 per cent (higher rate taxpayers); and 42.5 per cent (additional rate taxpayers). Non-taxpayers cannot reclaim the 10 per cent deducted at source. When you invest in UK shares you're taxed on the transaction. This is known as Stamp Duty Reserve Tax (SDRT) for electronic transactions and Stamp Duty for transactions.

PROTECTING YOUR WEALTH FROM TAX

If appropriate, you may wish to consider reducing your tax bill by structuring your savings so that they are owned by the lowest rate taxpayer in your family or household.

Another way to prevent tax eroding your money is to put your cash into tax-efficient savings and investment wrappers, such as an Individual Savings Account (ISA). Because of their tax efficiency, there is an annual limit on how much money you can put into ISAs. The annual limit for the current 2012/13 tax year is £11,280 and this limit is set to increase each year in line with inflation.

Up to £5,640 of your annual limit can be saved in a Cash ISA. The remainder can be invested in a Stocks & Shares ISA. Alternatively, you could use your full £11,280 ISA allowance to invest in a Stocks & Shares ISA with one provider.

POTENTIAL FOR HIGHER RETURNS

A Stocks & Shares ISA can include individual shares or bonds, or pooled investments such as investment trusts. The main advantage of investing in a Stocks & Shares ISA is the potential for higher returns than with a Cash ISA, which pays interest at regular periods. Of course, like any investment, the value of a Stocks & Shares ISA can fall as well as rise, which means you might not get back the money you invest.

For higher (40 per cent) and additional (50 per cent) rate tax payers, dividends received inside an ISA suffer no further tax. This means investors retain 25 per cent and 36.1 per cent more of the dividend respectively than if the same investment were held outside an ISA.

JUNIOR ISAS

Junior ISAs are long-term tax-efficient savings accounts especially for children. They are available to any child under 18, living in the UK, who does not have a Child Trust Fund (CTF) account. Like ISAs, you can use them to save cash or invest in stocks and shares. In the current tax year you can save up to £3,600 in a Junior ISA with no tax payable on the interest or dividends. Children aged 16 can also choose to open an adult Cash ISA as well as a Junior ISA. ■

WE WORK WITH OUR CLIENTS TO BUILD TAILORED FINANCIAL PLANS BASED ON THEIR SPECIFIC FINANCIAL GOALS AND NEEDS AND HELP THEM PUT THAT PLAN INTO ACTION. IF YOU WOULD LIKE TO DISCUSS THE RANGE OF SERVICES WE OFFER, PLEASE CONTACT US FOR FURTHER INFORMATION.

All figures relate to the 2012/13 tax year. Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change. The value of investments and income from them may go down. You may not get back the original amount invested.

TIME IS RUNNING OUT

Should you be taking advantage of current retirement planning rules?

Pensions have long been a highly tax-efficient way to save for retirement. If applicable to your particular situation, here are two opportunities you may wish to consider before the rules change next April.

50 PER CENT TAX RELIEF

While the 50 per cent additional tax rate is in place, it is still possible to receive up to 50 per cent tax relief on contributions to pensions during this current tax year. The 50 per cent rate will be reduced to 45 per cent from 6 April 2013, and this is therefore the last tax year to receive tax relief at up to 50 per cent on pension contributions.

CARRY FORWARD OF UNUSED RELIEFS

You may be able to contribute in excess of the annual allowance of £50,000 and receive tax relief using Carry Forward relief if you have contributed less than £50,000 in any of the previous three tax years. If you pay 50 per cent tax, you need to do this in the current tax year to maximise tax relief before it drops to 45 per cent. As this is a complex area, professional advice should be sought. ■

WEIGHING UP ALL THE OPTIONS WHEN YOU ARE THINKING ABOUT RETIREMENT PLANNING CAN SEEM DAUNTING. TO FIND OUT HOW WE CAN HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

All figures relate to the 2012/13 tax year. A pension is a long-term investment, and the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

ARE YOU UTILISING YOUR PENSION SAVINGS EFFICIENTLY?

A lack of planning could lead to an unexpected 55 per cent death tax on pension savings

A worrying number of people in retirement are not utilising their pension savings efficiently, according to statistics revealed by Skandia (30/07/12). This could result in their pension funds being subject to an unexpected 55 per cent tax charge on death. This tax charge could be avoided or reduced in many cases.

NOT TAKING AN INCOME

The data provided by Skandia shows that 59 per cent of customers in 'capped drawdown' are not taking an income. These are individuals who have taken their maximum tax-free cash lump sum and left the rest of their pension fund invested. The remaining pension fund is technically in 'drawdown', even though they are not taking an income, which means that the remaining pension fund is subject to a 55 per cent tax charge if paid as a lump sum to a beneficiary on the member's death.

SUBSTANTIAL TAX CHARGE

For those who die below age 75, this tax charge was increased from 35 per cent to 55 per cent in April 2011, so many people may still be unaware of it. The 55 per cent tax charge is a substantial figure, and if applicable to you, it is essential that you obtain professional advice to see how best to mitigate this tax liability.

Some key areas to look at include:

UNDER AGE 75

It is only money held in drawdown that is potentially subject to a 55 per cent tax charge on death under age 75. Untouched pension funds can be left to beneficiaries without any tax charge.

You could consider phasing the amount you move into drawdown, using tax-free cash to provide part of your immediate income needs.

You could consider taking an income from the remaining money in drawdown. If you do not need the income, you may reinvest it back into a pension as a contribution. Contributions will benefit from tax relief, and the pension fund built from those contributions will not be deemed in drawdown, so will not be subject to a 55 per cent tax charge on the member's death before age 75.

'Flexible' drawdown can be used to enable money to be moved out of the 55 per cent taxed environment at a much quicker rate than 'capped' drawdown. To qualify for flexible drawdown you must be receiving at least £20,000 guaranteed pension income a year and have unrestricted access to the remaining pension fund.

AGE 75 ONWARDS

All money left in a pension is subject to a 55 per cent tax charge on death, regardless of whether the funds are in drawdown or not.

If appropriate, consider accessing as much of your pension fund as possible to move money outside of this 55 per cent tax charged environment.

Flexible drawdown can again be used to move money out of the 55 per cent taxed environment at a quicker speed than capped drawdown allows.

UNNECESSARILY HIGH EXPOSURE

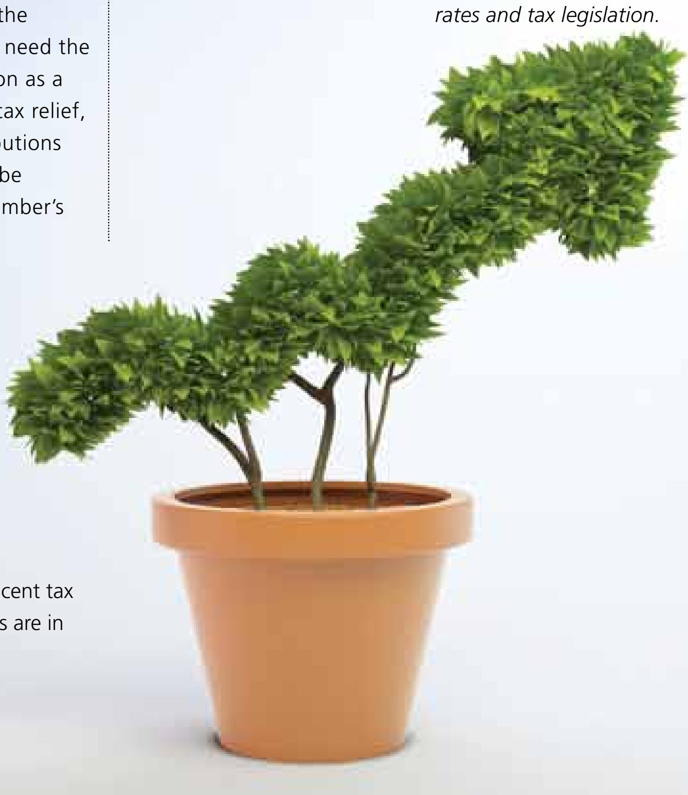
Leaving money inside the 55 per cent taxed environment may not always be a bad thing, especially when taking into account income tax and inheritance tax implications if it is moved to within your estate. It only becomes a concern if a lack of planning gives you an unnecessarily high exposure to this 55 per cent death tax, when action could be taken to reduce your exposure.

EXACERBATING THE SITUATION

The current economic climate is probably exacerbating the situation, because people may be delaying taking an income until gilt yields and stock markets improve as this could help secure a higher income level. Delaying income could be part of your long-term financial plan; however, if you are unaware of the implications your actions could have, your beneficiaries may, on your death, face an unexpected 55 per cent tax charge on part of those savings. ■

All figures relate to the 2012/13 tax year. A pension is a long-term investment, and the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

WHETHER YOU ARE THINKING OF STARTING A PENSION, REVIEWING YOUR EXISTING PENSION PROVISION OR ARE ABOUT TO TAKE BENEFITS FROM A SCHEME, FIND OUT HOW WE COULD HELP YOU PLAN FOR THE MOST IMPORTANT TIME OF YOUR LIFE.



7.15m
The number of UK retired households

THE BURDEN OF TAX IN RETIREMENT

Savers need to consider all retirement income solutions in order to achieve a degree of certainty

The average UK pensioner household pays out 29 per cent of its income in retirement to the taxman through a combination of direct and indirect taxation, which adds up to an annual tax bill of nearly £42bn, new analysis [1] from MetLife shows (25/07/12).

PENSIONER HOUSEHOLD INCOME

On an average gross pensioner household income of £20,130, that equates to £5,864 paid out in tax, with income tax accounting for nearly £1,501 of the bill and indirect taxes including VAT totalling £1,937. Council tax is the third-largest tax burden, accounting for 5.8 per cent of gross income.

With an average tax liability of £5,864 for the UK's 7.15 million retired households, the bill from direct and indirect taxation equates to around £41.9bn. In total, direct taxes, including income tax and council tax, account for 12.2 per cent out of the 29 per cent tax burden with indirect taxes, including VAT, duty on tobacco, alcohol and petrol, vehicle excise duty and TV licences, accounting for 16.8 per cent.

DIRECT AND INDIRECT TAX

However, less well-off households proportionally pay out the most in direct and indirect tax with 42 per cent of their gross household income being paid out in tax. The bottom tenth of pensioner households, in receipt of gross income estimated at £8,259 a year, pay £3,599 in taxes.

The top 10 per cent of pensioner households, with gross income of £47,992, see 29 per cent of their income going in direct and indirect tax.

PLANNING FOR RETIREMENT

Pensioners need to think about the effects of direct and indirect tax on their retirement income and plan accordingly. With 29 per cent of gross retirement income being swallowed up by tax, it is clearly a major factor to consider when planning for retirement.

When you add in the potential effects of inflation in a retirement lasting up to 20 or even 30 years, it is clear that savers need to consider all retirement income solutions in order to achieve a degree of certainty.

INVESTMENTS AND SAVINGS

MetLife's analysis shows that the average retired household receives 40 per cent of its gross income from private and occupational pensions, with 39 per cent coming from the State Pension and the rest coming from investments and savings plus other benefits. The average private pension pays £8,134 per household before taxes. ■

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

[1] MetLife analysis of the ONS Wealth and Assets Survey. ONS estimates that there are 7.151 million retired households.

ANNUITY CHALLENGE

Shopping around for the best deal could really pay off

An annuity provides you with a guaranteed income for life when you retire. You buy an annuity using a lump sum from your pension or, perhaps, from some savings. Annuities remove the worry about having to budget for an unknown period of time. We can help you understand the retirement process and find the right annuity for you.

THERE'S NO GOING BACK

Once you've bought an annuity there's no going back, so you've got to get it right first time. Depending on the provider you go to, you could increase your income considerably by shopping around.

If you're not in the best of health, you may also be eligible for an annuity called an 'enhanced' or 'impaired' annuity. These products pay higher rates because the annuity providers expect to pay the annuity over a shorter time period.

SHOP AROUND FOR THE BEST DEAL

With most pensions, you automatically have what's called an 'open-market option' (OMO). This means you don't have to take the pension offered to you by your pension provider, but have the right to take your built-up fund to another provider to obtain a higher annuity rate.

Pension providers are obliged to remind you of your right to take the OMO. The amount of income you will receive from your annuity will vary between different insurance companies, so it's essential to make comparisons before making your decision. ■

READY TO TURN YOUR PENSION FUND INTO AN INCOME FOR LIFE?
It's essential that you take professional advice to help you decide what type of annuity will work best for you. To get the most out of your pension savings fund you should be confident that you are making the right decisions about your retirement income. To discuss how we could help you, please contact us for further information.

A pension is a long-term investment, and the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. The value of level annuities will be eroded by inflation over time. Once taken, an annuity cannot be changed.

BUILD YOUR OWN MADE-TO-MEASURE RETIREMENT SOLUTION

We can help you measure up what type of portfolio best suits your circumstances

A pension is one of the most tax-efficient ways of saving for retirement. A Self-Invested Personal Pension (SIPP) is essentially a pension wrapper that is capable of holding investments and providing you with the same tax advantages as other personal pension plans.

TAX BENEFITS WILL DEPEND ON YOUR CIRCUMSTANCES

Like all pensions, a SIPP offers up to 50 per cent tax relief on contributions and there is no capital gains tax or further income tax to pay. The tax benefits will depend on your circumstances and tax rules are subject to change by the government.

The maximum SIPP contribution is either £3,600 or 100 per cent of an individual's income, up to a maximum of £50,000 per annum. It is possible to contribute more than the annual allowance if you have any unused allowances from the previous three tax years.

However, whereas traditional pensions typically limit investment choice to a shorter list of funds, normally run by the pension company's own fund managers, a SIPP lets you invest in a much wider range of investments.

INVESTMENT CHOICES

You can choose from a number of different investments, unlike other traditional pension schemes, giving you control over where your money is invested.

Typically a SIPP will offer a wide range of investment options for those planning for retirement, including the following:

- Cash
- Equities (both UK and foreign)
- Gilts and other fixed income instruments
- Unit trusts and OEICS
- Funds, including hedge funds
- Investment trusts
- Real estate investment trusts (REITS)
- Commercial property (including offices, shops or factory premises) and land
- Traded endowment policies

PLANNING FOR YOUR RETIREMENT

This wide range of pension investment options means that planning for your retirement can be done more strategically, enabling the creation of a truly diversified pension investment portfolio and the spreading of risk across a range of asset classes.

One of the major advantages of a SIPP is that you can consolidate other pensions, allowing you to bring together your retirement savings. This simplifies the management of your investment portfolio and makes regular investment reviews easier.

TAKING BENEFITS FROM YOUR SIPP

When you reach the age of 55 you can take benefits from your SIPP. Traditionally, you would take 25 per cent of the value of the fund and use the remaining 75 per cent to purchase a pension annuity. The annuity provides an income for the rest of your life but, once you have purchased it, you lose access to your pension fund.

Drawdown provides you with an income and still leaves you with access to your pension. The funds remain invested, so you're still in control of your investments but there is a risk that if the income being taken is combined with poor investment performance, then the fund will decline and so will the income you can draw from it.

NO MINIMUM INCOME REQUIREMENT

The maximum income that can be taken is 100 per cent of the equivalent pension annuity; there is no minimum income requirement so it can be set at zero. On your death it can be used to fund an income for your dependants or be paid out as a lump sum (less a 55 per cent tax charge) to a nominated beneficiary.

This level of choice can be expensive to offer and many people find that they do not need it, so lower-cost SIPPs have been developed that focus on investment funds only. These lower-cost SIPPs usually offer significantly more fund options than you would be offered in a traditional pension scheme.

MONITORING YOUR INVESTMENTS

Some of the investments you choose will carry a certain amount of risk. You will be solely responsible for any investments and you will not receive additional help. The option is available to get some help, but this will incur additional costs.

Being solely responsible for your investment will require you monitoring your investments, and possibly checking on them regularly. A SIPP investment, like any investment, is never guaranteed and you should obtain professional advice.

IF YOU'D LIKE TO FIND OUT MORE ABOUT A SIPP, PLEASE CONTACT US FOR MORE INFORMATION.

All figures relate to the 2012/13 tax year. A pension is a long-term investment, and the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

Published by Goldmine Media Limited,
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL