A Guide to

WEALTH MANAGEMENT

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it means something different to everyone

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Welcome to 'A Guide to Wealth Management.' As your life changes over time it's important to ensure that your financial objectives continue to meet your needs. We are committed to meeting the needs of wealthy clients and those aspiring to become wealthier. We understand that wealth is more than money, it means something different to everyone.

Our approach takes account of business, personal and family circumstances. As well as your available assets, other important factors we take into account are tax considerations, your financial liabilities and your retirement planning.

Once we have all the information we can then develop a financial plan that will benefit you and your family for generations. So whether you are rapidly progressing in your career, or building your business, and are looking to build your wealth, we provide the professional advice required to ensure you attain your goals.

Equally, if you've already built your wealth and wish to see it grow, our approach to total wealth management can help you continue to achieve this objective.

There are many different ways to grow your wealth. Our skill is in helping you to understand your choices, and then helping you to make the investment decisions that are right for you. That depends on your life priorities, your goals and your attitude to risk.

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

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Spreading risk in your portfolio

One of the principal tenets of spreading risk in your portfolio is to diversify your investments whatever the time of year. Diversification is the process of investing in areas that have little or no relation to each other. This is called a 'low correlation'.

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

THE MAIN WAYS YOU CAN DIVERSIFY YOUR PORTFOLIO

ASSETS

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

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

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

SECTOR

Once you've decided on the assets you want in your portfolio, you can diversify further by investing in different sectors, preferably those that aren't related to each other.

For example, if the healthcare sector takes a downturn, this will not necessarily have an impact on the precious metals sector. This helps to make sure your portfolio is protected from falls in certain industries.

GEOGRAPHY

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

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

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

COMPANY

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

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

BEWARE OF OVER-DIVERSIFICATION

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

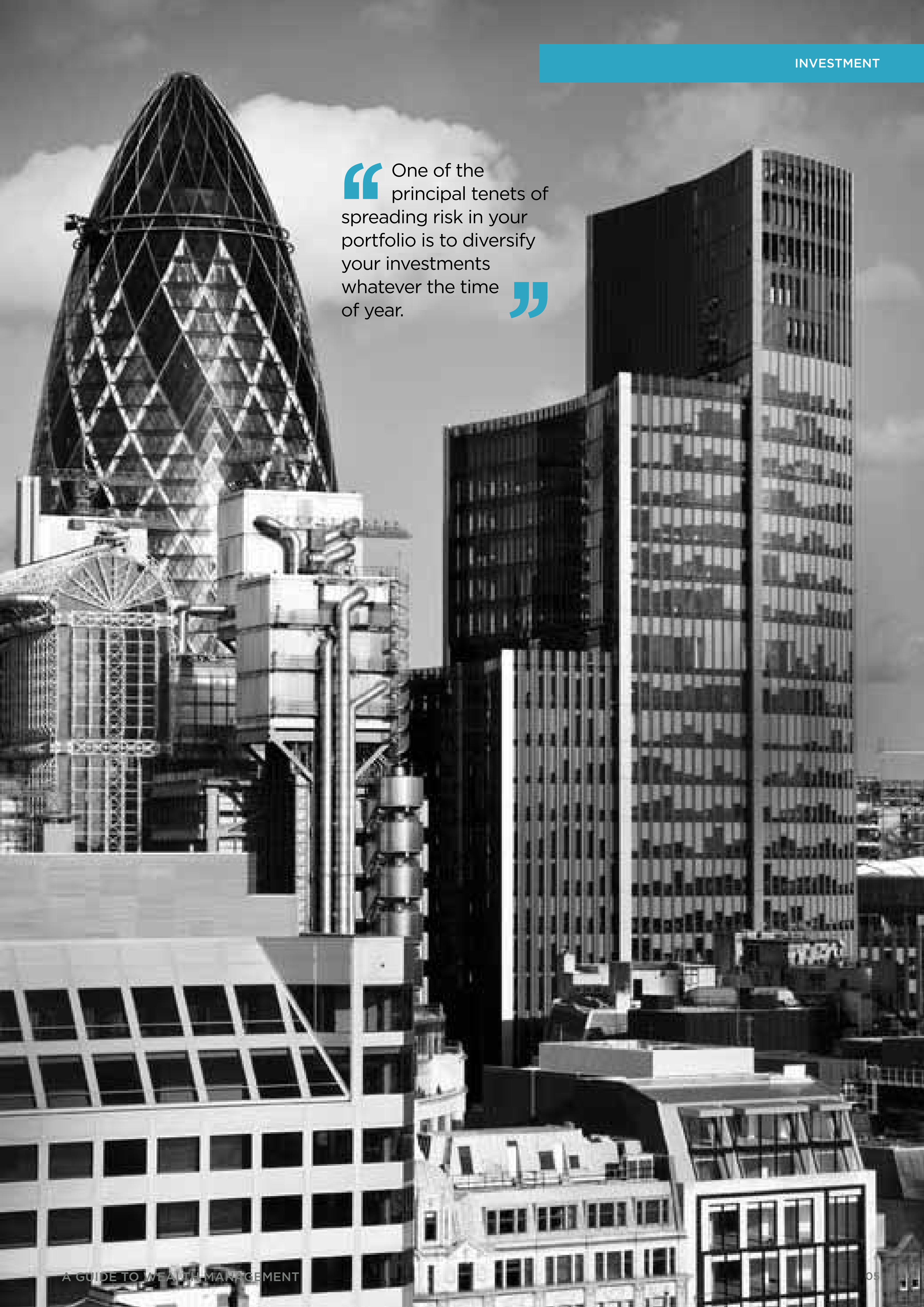
INVESTMENT

Creating wealth

We provide solutions for the diverse needs of both our wealthy clients and those who aspire to become wealthy, enabling each individual to structure their finances as efficiently as possible.

There are many different ways to grow your wealth, from ensuring you receive the best rates for short-term cash management, to a more complex undertaking of creating an investment portfolio to grow your wealth for the long-term.

We can help you make informed decisions about the investment choices that are right for you, by assessing your life priorities, goals and attitude towards risk for return. Any number of changing circumstances could cause your wealth to diminish, some inevitable and some unpredictable - new taxes and legislation, volatile markets, inflation and changes in your personal life. Structuring your wealth in a way that minimises the impact of these changes is essential.



> "One of the principal tenets of spreading risk in your portfolio is to diversify your investments whatever the time of year."

Pooled investments

If you require your money to provide the potential for capital growth or income, or a combination of both, provided you are willing to accept an element of risk pooled investments could just be the solution you are looking for. A pooled investment allows you to invest in a large, professionally managed portfolio of assets with many other investors. As a result of this, the risk is reduced due to the wider spread of investments in the portfolio.

Pooled investments are also sometimes called 'collective investments'. The fund manager will choose a broad spread of instruments in which to invest, depending on their investment remit. The main asset classes available to invest in are shares, bonds, gilts, property and other specialist areas such as hedge funds or 'guaranteed funds'.

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets with the aim of providing a good return for investors.

Trackers, on the other hand, are passively managed, aiming to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies). They might do this by buying the equivalent proportion of all the shares in the index. For technical reasons the return is rarely identical to the index, in particular because charges need to be deducted.

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an actively managed fund is paid to invest so as to do better than the index (beat the market) or to generate a steadier return for investors than tracking the index would achieve. However, active management does not guarantee that the fund will outperform the market or a tracker fund.

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Unit trusts

Unit trusts are a collective investment that allows you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

The unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and for the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively some funds invest in metals and natural resources, as well as many putting their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as balanced funds. If you wish to marry your profits with your principles you can also invest in an ethical fund.

Some funds invest not in shares directly but in a number of other funds. These are known as multi-manager funds. Most fund managers use their own judgment to assemble a portfolio of shares for their funds. These are known as actively managed funds.

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However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE all-share index. These are known as passive funds, or trackers.

Open-ended investment companies

Open-ended investment companies (OEICs) are stock market-quoted collective investment schemes. Like unit trusts and investment trusts they invest in a variety of assets to generate a return for investors.

An OEIC, pronounced ‘oik’, is a pooled collective investment vehicle in company form. They may have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund moving your money from one sub fund to another as your investment priorities or circumstances change. OEICs may also offer different share classes for the same fund.

By being “open ended” OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

You may invest into an OEIC through a stocks and shares Individual Savings Account ISA. Each time you invest in an OEIC fund you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

INVESTMENT BONDS

An investment bond is a single premium life insurance policy and is a potentially tax-efficient way of holding a range of investment funds in one place. They can be a good way of allowing you to invest in a mixture of investment funds that are managed by professional investment managers.

Each bond is usually designed to provide benefits for different types of investors but a common element is that they aim to produce long term capital growth and/or generate a long-term return. When you invest in a bond you will be allocated a certain number of units in the funds of your choice or those set out by the conditions of the bond.

Each fund invests in a range of assets and the price of your units will normally rise and fall in line with the value of these assets. Investment bonds are single premium life insurance policies, meaning that a small element of life insurance is provided. This is paid out after your death.

No capital gains tax is paid on the gains that you make, and you do not pay basic rate income tax on any income. As a higher rate taxpayer you may become liable to income tax at a rate equal to the difference between the basic rate and the higher rates (20 per cent), but not until your cash in your bonds or make partial withdrawals of over 5 per cent per annum of your original investment. This is because there is a special rule which allows you to make annual withdrawals from your bonds of up to 5 per cent for 20 years without any immediate tax liability. It is possible to carry these 5 per cent allowances forward, so if you make no withdrawals one year, you can withdraw 10 per cent of your investment the next, without triggering a tax charge.

Investment trusts

Investment trusts are based upon fixed amounts of capital divided into shares. This makes them closed ended, unlike the open-ended structure of unit trusts. They can be one of the easiest and most cost-effective ways to invest in the stock market. Once the capital has been divided into shares, you can purchase the shares. When an investment trust sells shares, it is not taxed on any capital gains it has made. By contrast, private investors are subject to capital gains tax when they sell shares in their own portfolio.

Another major difference between investment trusts and unit trusts is that investment trusts can borrow money for their investments, known as gearing up, whereas unit trusts cannot. Gearing up can work either to the advantage or disadvantage of investment trusts, depending on whether the stock market is rising or falling.

Investment trusts can also invest in unquoted or unlisted companies, which may not be trading on the stock exchange either because they don't wish to or because they don't meet the given criteria. This facility, combined with the ability to borrow money for investments, can however make investment trusts more volatile.

The net asset value (NAV) is the total market value of all the trust's investments and assets minus any liabilities. The NAV per share is the net asset value of the trust divided by the number of shares in issue. The share price of an investment trust depends on the supply and demand for its shares in the stock market. This can result in the price being at a 'discount' or a 'premium' to the NAV per share.

A trust's share price is said to be at a discount when the market price of the trust's shares is less than the NAV per share. This means that investors are able to buy shares in the investment trust at less than the underlying stock market value of the trust's assets.

A trust's shares are said to be at a premium when the market price is more than the NAV per share. This means that investors are buying shares in the trust at a higher price than the underlying stock market value of the trust's assets. The movement in discounts and premiums is a useful way to indicate the market's perception of the potential performance of a particular trust or the market where it invests. Discounts and premiums are also one of the key differences between investment trusts and unit trusts or OEICs.

Individual savings accounts

An Individual Savings Account (ISA) is a tax-efficient wrapper. Within an ISA you pay no capital gains tax and no further tax on the income, making it one of the most tax-efficient savings vehicles available.

The earlier and the more you add to your ISA the better. But the crucial thing to remember is that every tax year – which runs from 6th April one year to 5th April the next year – you're only allowed to invest a certain amount in an ISA. This is known as your annual ISA allowance.

If you are planning to open or transfer an existing ISA, you have until 5th April, but don't leave it until this date. If you miss the deadline, you'll lose your £10,680 allowance for the 2011/12 tax year forever.

Q: What types of ISAs are there?
A: There are two main types of ISAs: Cash ISAs and Stocks & Shares ISAs.

Q: What is a Cash ISA?
A: Cash ISAs work in the same way as normal savings accounts. You choose if you want a fixed rate account, an easy access (or instant access) account or a regular savings account. You don't pay income tax on the interest you earn. For every £1 of interest you earn on your savings, instead of the taxman pocketing 20p of income tax (if you're a basic rate taxpayer), you get to keep it all.

Q: What is a Stocks and Shares ISA?
A: A Stocks & Shares ISA is another option open to you if you're looking to invest for at least 5 to 10 years. With a Stocks & Shares ISA you can invest in individual stocks and shares or investment funds. Any profit you make is not subject to capital gains tax. However, you pay 10 per cent tax on dividend earnings.

Q: Who can save in an ISA?
A: Anyone who is 16 or over and a UK resident can save money in a tax-efficient Cash ISA but to save in a Stocks & Shares ISA you need to be at least 18.

Q: How much can I invest?
A: As of 6th April 2011, the ISA limit increased for everyone by £480 to £10,680 per tax year. Of this, the maximum amount you can put into a Cash ISA is £5,340, and then the remainder can be invested into a Stocks & Shares ISA.

Alternatively, you may choose to allocate the entire £10,680 into a Stocks & Shares ISA.

Q: What is a Junior ISA?
A: A Junior ISA is a tax-efficient way to save for a child's future and can be set up in the child's name by a parent or guardian. You can set up a Stocks & Shares ISA or Cash ISA or a combination of both and any investment growth is free of UK Income and Capital Gains Tax. The annual investment limit is currently £3,600, but this will rise in line with inflation from 2013. The money is locked away until the child reaches the age of 18, giving the investment time to grow. The child is the beneficial owner of the Junior ISA. Children are not eligible for a Junior ISA if they have or were eligible for a Child Trust fund.

Q: When should I invest?
A: As long as you have not exceeded the current £10,680 ISA limit you can invest in an ISA at any point during the tax year and, depending on the ISA provider, you can allocate lump sums or monthly contributions that fit around your lifestyle.

Q: Will ISAs always be tax-efficient?
A: The government has promised to keep ISAs indefinitely. However, the tax treatment of ISAs may change in the future.

Q: Can I transfer my existing ISA money?
A: You can transfer the money saved in a Cash ISA to a Stocks & Shares ISA, even if it was saved in previous tax years, without affecting your annual ISA allowance. You can also transfer some or all of the money held in previous tax year Cash ISAs into a Stocks & Shares ISA. A stocks and shares investment is a medium to long term investment, but remember the value of your investment can go down as well as up, and you may get back less than you originally invested, and that tax rules may change in the future and taxation will depend on your personal circumstances.

Here are some examples of how it could work:

Cash ISA	Stocks & Shares ISA	Total ISA Allowance
£1,680	£9,000	£10,680
£3,480	£7,200	£10,680
£5,340 (maximum cash allowance)	£5,340	£10,680
£0	£10,680 (maximum stocks and shares allowance)	£10,680

From 6th April 2012, the maximum annual ISA investment will rise to £11,280 (or £940 per month). Individuals will be able to invest up to £11,280 into a Stocks & Shares ISA, or they can invest up to £5,640 into Cash ISA, with the remainder available to invest in a Stocks & Shares ISA. This is £600 higher than the limit for the current year.

Investing for income

INVESTMENT DISTRIBUTION BONDS

Distribution bonds are intended to provide income with minimal affects on your original investment. They attempt to ensure that any tax-free returns, up to 5 per cent and usually in the form of dividends, do not greatly reduce your original investment, thereby providing the opportunity for future long-term growth. They also combine two different asset classes, equities and bonds, inside one investment wrapper.

Distribution bonds tend to have a higher amount invested in UK equities than other types of bonds, so they may be riskier. Nevertheless, distribution bonds normally have a strong income flow to them from reliable investments to increase their security. A larger exposure to equities as part of their overall investment mix provides the potential for longer term growth.

Depending on the performance, the income produced from distribution bonds will fluctuate, and for tax purposes, withdrawals can be deferred for up to 20 years.

During these difficult economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. This is why the Bank of England has aggressively cut them.

If you are an income-seeker, much will come down to your attitude to risk. If you want no or very low risk, you may wish to consider a traditional cash bank account and accept that income levels are likely to remain low for the foreseeable future. However, if you're further up the risk scale you may wish to consider some of these alternatives.

GILTS

If you're willing to take on a slightly higher degree of risk and you need the extra income, you may wish to consider gilts (or gilt-edged stocks), which are bonds issued by the government and pay a fixed rate of interest twice a year. Gilts involve more risk than cash, because there's a chance the government won't be able to pay you back. It's highly unusual for a government to default on a debt or default on the interest payments, so they have been considered safe. But in this current economic climate, this risk increases.

You are not guaranteed to get all your capital back under all circumstances. Not all gilts are bought from the government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall. There are other types, such as index-linked gilts, which form the largest part of the gilt portfolio after conventional gilts. Here the coupon is related to movements in the Retail Prices Index (RPI) and is linked to inflation.

CORPORATE BONDS

Next along the risk scale if you are looking for a higher yield are corporate bonds. These are issued by companies and have features that are exactly the same as gilts except that, instead of lending money to the government, you're lending to a company. The risk lies in the fact that companies may go bust and the debt may not be repaid. They have a nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year, usually fixed. The value of the bonds themselves can rise and fall; however, the fact that bonds are riskier at the moment means companies are paying more in order to induce people to buy their debt. There are an increasing number of global bond funds entering the market that may enable you to get value from a lot of different markets.

EQUITY INCOME

If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money. However, for investors who are prepared to see their investments fluctuate in value while hopefully providing a stable income that grows over time, you may wish to consider equity income funds. These invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends will be your income.

GLOBAL EQUITY INCOME FUNDS

Further up the risk scale are global equity income funds. These are similar to UK funds, except that there are only a handful of the big blue-chip firms that pay reliable dividends in the UK, whereas global diversification offers a significant range of companies to choose from. Investing in other currencies brings an added level of risk, unless the fund hedges the currency.

EQUITY INCOME INVESTMENT TRUSTS

Equity income investment trusts are higher risk but similar to other equity income investments. They are structured differently from unit trusts and open-ended investment companies. Investment trusts are closed-ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This means they also have more potential for greater returns once better times resume. Investment trust share prices are therefore often at a 'discount', or 'premium' to the value of the assets in the fund.

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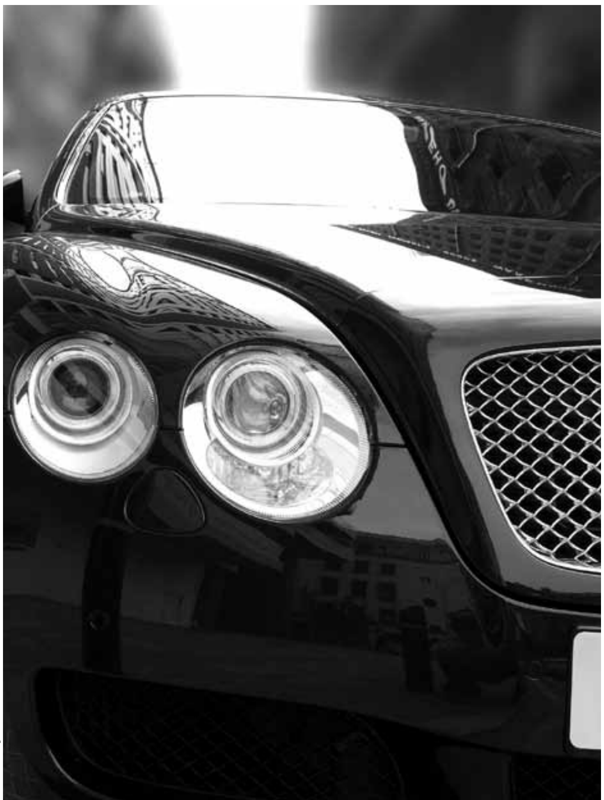

Absolute return funds

In the current investment climate, absolute return funds could offer the ordinary investor access to a range of more sophisticated investment techniques previously only available to the very wealthy. These products, which have only become generally available in more recent years, aim to provide a positive return annually regardless of what is happening in the stock market. However, this is not to say they can't fall in value. Fund managers stress that investors should not expect the funds to make money for them month in, month out, but over the medium term – five years – they should produce positive returns.

INVEST IN A WIDE RANGE OF ASSETS

Absolute return funds achieve their steadier results through a combination of strategies. One strategy is to invest in a wide range of assets, including not only shares, bonds and cash but also the likes of property and hedge funds. Another is to use derivatives, which are specialised products that allow investors to bet on the future price movement of an asset. Crucially, this allows investors to make money when an asset is falling, as well as rising, in price. To make money in a falling market, absolute return managers can make use of sophisticated investment tools such as 'shorting' and 'credit default swaps'.

Used properly, these tools aim to allow absolute return funds to do better than straightforward equity or bond funds when markets are falling. However, they are likely to lag behind their more conventional rivals when markets are rising.

PRESERVE WEALTH, IN GOOD TIMES AND IN BAD

Absolute return funds have a broad appeal and a place in many investors' portfolios because they aim to do what a lot of investors want, which is to make money and preserve wealth, in good times and in bad.

For the more adventurous investor, absolute return funds could be used as the foundation of a portfolio while buying more aggressive funds alongside. Alternatively, for more cautious investors they could provide a foundation for a more conventional portfolio. However, it is vital that investors choose carefully and obtain professional advice before entering this market.

BUILDING A BALANCED PORTFOLIO

Absolute return funds do not rely heavily on a rising market for their success, rather the skill of the manager. They are therefore a true diversifier and could also be an important tool for building a balanced portfolio that grows over the medium to long term.

Unlike hedge funds, absolute return funds are fully regulated by the Financial Services Authority and investments in them are covered by the Financial Services Compensation Scheme, providing they are based in the UK.

Investors in absolute return funds are principally liable to Capital Gains Tax (CGT), which is charged when you sell an investment and realise 'gains' (profits) above a certain level. Current CGT rates are 18 per cent or 28 per cent for basic and higher rate tax payers respectively. In addition, every investor can also realise £10,600 of profits in the current 2011/12 tax year without having to pay CGT.

Offshore investments

For the appropriate investor looking to achieve capital security, growth or income, there are a number of advantages to investing offshore, particularly with regards to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, a variety of savers could put offshore investments to good use.

The investment vehicles are situated in financial centres located outside the United Kingdom and can add greater diversification to your existing portfolio. Cash can also be held offshore in deposit accounts, providing you with the choice about when you repatriate your money to the UK, perhaps to add to a retirement fund or to gift to children or grandchildren. Those who work overseas or have moved abroad to enjoy a different lifestyle often want to pay as little tax as is legally possible.

Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds. This means that, if you are a higher rate tax payer in the UK, you could wait until your tax status changes before bringing your funds (and the gains) back into the UK.

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

Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad, you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country. The UK has negotiated treaties with most countries so that UK expats in those countries are not taxed twice. Basically, if a non-domiciled UK resident is employed by a non-UK resident employer and performs all of their duties outside the UK, the income arising is only subject to UK tax if it is received in or remitted to the UK.

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Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

If you are an expatriate you should find out if you are aware of all the investment opportunities available to you and that you are minimising your tax liability. Investing money offshore is a very complex area of financial planning and you should always obtain professional advice. Currency movements can also affect the value of an offshore investment.

How the taxman treats investments

Different investments are subject to different tax treatment. The following is based on our understanding, as at 6 April 2011, of current taxation, legislation and HM Revenue & Customs (HMRC) practice, all of which are subject to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances.

UNNECESSARY TAX ON SAVINGS

If you or your partner is a non-taxpayer, make sure you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HMRC.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

You pay no personal Income Tax or Capital Gains Tax (CGT) on any growth in an ISA, or when you withdraw your money. You can save up to £10,680 per person in an ISA in the 2011/12 tax year. If you invest in a Stocks & Shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. The tax credit cannot be reclaimed by anyone including non taxpayers. There is no further tax liability. The impact of taxation (and any tax reliefs) depends on your individual circumstances.

UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES (OEICS)

With a Unit Trust or OEIC your money is pooled with other investors' money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property.

Dividend income from OEICS and unit trusts invested in shares: if your fund is invested in shares, then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit.

If you are a basic rate or non taxpayer, there is no further income tax liability. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

Interest from fixed interest funds: any interest paid out from fixed interest funds (these are funds that invest, for example, in corporate bonds and gilts, or cash) is treated differently to income from funds invested in shares. Income is paid net of 20 per cent tax. Non taxpayers can re-claim this amount, basic rate taxpayers have no further liability; higher rate taxpayers pay an additional 20 per cent, additional rate taxpayers pay 30 per cent (whether distributed or re-invested).

Capital Gains Tax (CGT): no CGT is paid on the growth in your money from the investments held within the fund, but when you sell, you may have to pay CGT. You have a personal CGT allowance that can help limit any potential tax liability.

Accumulated income: this is interest or dividend payments that are not taken but instead reinvested into your fund. Even though they are reinvested, they still count as income and are subject to the same tax rules as for dividend income and interest.

ONSHORE INVESTMENT BONDS

Investment bonds have a different tax treatment from many other investments. This can lead to some valuable tax planning opportunities for individuals. There is no personal liability to CGT or basic rate Income Tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative, so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be greater than 100 per cent of the amount paid in).

If you are a higher or additional rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire, for example), then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. Whether you pay tax will depend on factors such as how much gain is realised over the 5 per cent allowance (or on full encashment) and how much other income you have in the year of encashment (the gain plus other income could take you into the higher rate tax bracket). Those with age related allowances could lose some or all of this allowance if the gain on a bond added to other income takes them over £24,000 in the 2011/12 tax year, which equates to a marginal rate of tax on 'the age allowance trap' element of their income chargeable at 30 per cent.

If you do this, you will not usually need to pay tax on any gains, however this will depend on your individual circumstances at that time and as such professional financial and tax advice should be sought regarding this complex area.

The taxation of life assurance investment bonds held by UK corporate investors changed from 1 April 2008. The bonds fall under different legislation and corporate investors are no longer able to withdraw 5 per cent of their investment each year and defer the tax on this until the bond ends.

OFFSHORE INVESTMENT BONDS

Offshore investment bonds are similar to onshore investment bonds (above)

> "Different investments are subject to different tax treatment. The following is based on our understanding, as at 6 April 2011, of current taxation, legislation and HM Revenue & Customs (HMRC) practice, all of which are subject to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances."

but there is one main difference. With an onshore bond, tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or capital gains tax is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

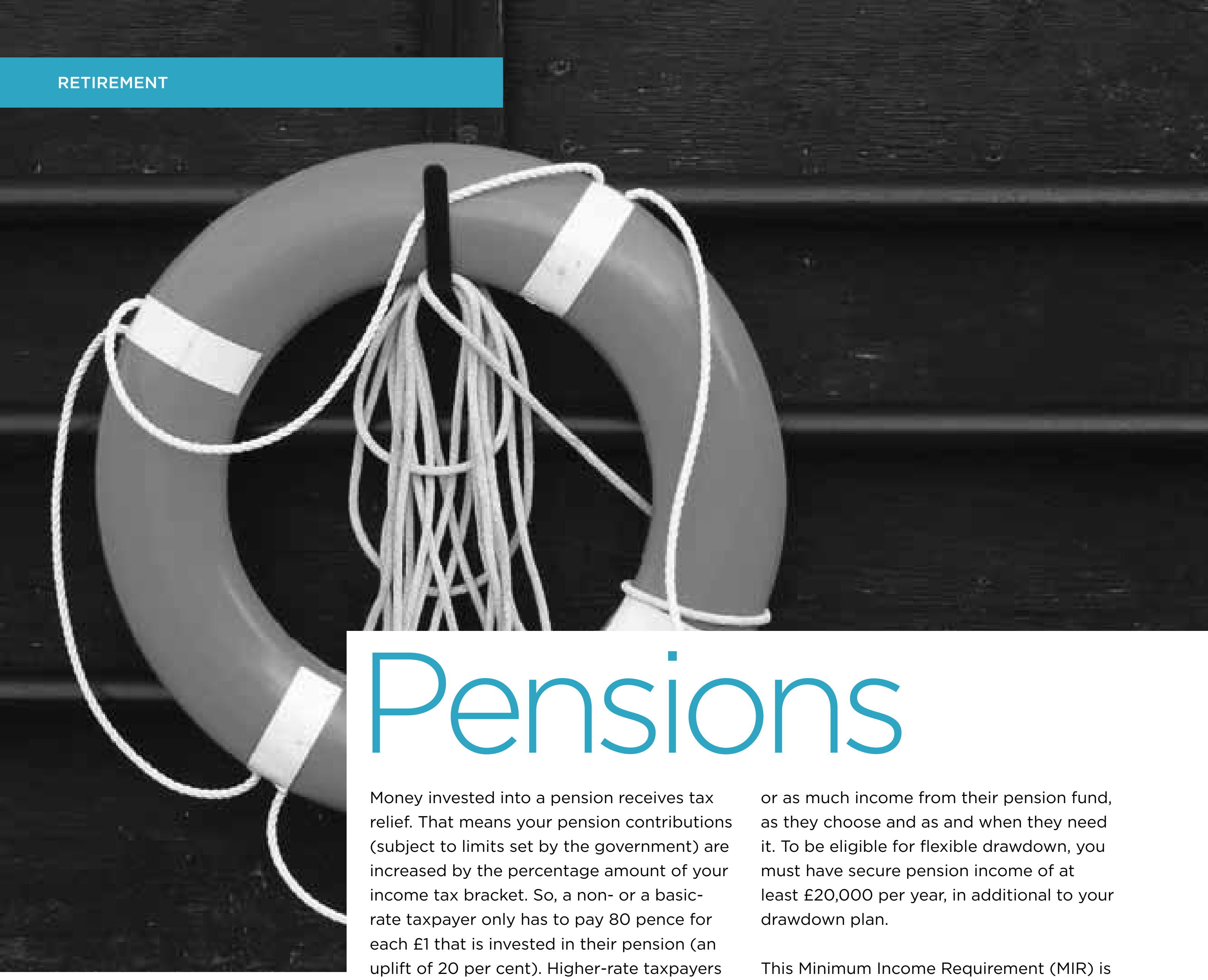
The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Tax may, however, become payable on a chargeable event (usually on encashment or partial encashment) at a basic, higher or additional rate tax as appropriate. Remember that the value of your fund can fluctuate and you may not get back your original investment.

UK SHARES

If you own shares directly in a company you may be liable to tax.

Dividends: any income (dividends) you receive from your shares carries a 10 per cent tax credit. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while 50 per cent additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

When you sell shares, you may be liable to CGT on any gains you might make. Current CGT rates are 18 per cent or 28 per cent for basic and higher rate tax payers respectively. You have an annual allowance and special rules apply to calculating your gains or losses.



Pensions

Money invested into a pension receives tax relief. That means your pension contributions (subject to limits set by the government) are increased by the percentage amount of your income tax bracket. So, a non- or a basic-rate taxpayer only has to pay 80 pence for each £1 that is invested in their pension (an uplift of 20 per cent). Higher-rate taxpayers effectively only pay 60 pence for each £1 invested (an uplift of 40 per cent) and additional-rate taxpayers (in the 50 per cent band) can benefit from 50 per cent relief.

Non-working individuals can invest up to £3,600 in a pension each year, but because of the tax relief this will only cost £2,880. Adults can also make such payments for children.

People who have taxable income in excess of £100,000 have their personal annual tax allowance reduced at a rate of £1 for every £2 of income over this threshold. This effectively results in the creation of a 60 per cent tax band for those with income between £100,000 and £112,950. This can be avoided if sufficient pension contributions can be made to bring income below the £100,000 threshold.

Currently 25 per cent of your pension fund can be taken as a lump sum.

FLEXIBLE DRAWDOWN

Flexible drawdown provides some individuals with the opportunity to withdraw as little or as much income from their pension fund, as they choose and as and when they need it. To be eligible for flexible drawdown, you must have secure pension income of at least £20,000 per year, in additional to your drawdown plan.

This Minimum Income Requirement (MIR) is considered a safety net to prevent retirees draining their funds. The minimum age at which flexible drawdown can be taken is 55. Income from registered pension schemes counts towards the MIR; including lifetime annuities, occupational pensions, or the state pension. But income from pension schemes with fewer than 20 members, typically Small Self-Administered Schemes, will not count. You must also be already receiving the income for it to be counted – it cannot be based on future income.

For tax purposes the usual tax-free lump sum is allowed, but any other withdrawals will be taxed as income in the tax year that they are paid. A 55 per cent tax charge will apply to lump sum death benefits. Previously, the tax on crystallised funds was 35 per cent, or 82 per cent post age 75.

In the year of commencing flexible drawdown, no contributions can be made to a defined-contribution pension scheme and you must also stop being an active member of any defined-benefit scheme.

RETIREMENT

Financial Independence

Whatever your age, it's never too early to begin planning for your retirement. If you have achieved a high standard of living today, you will want to ensure that you can support this lifestyle for the rest of your life.

We work with you to consider all the options, based on your needs and risk appetite. One option you may need to consider is pension provision. Thanks to legislation that raised the limits on tax-efficient savings within UK pensions, it makes sense to evaluate this important retirement planning tool.

Whilst flexible drawdown is available to any individual who meets the minimum income and age requirements, it may be of particular interest to higher rate tax payers who believe they will meet the MIR at retirement but will become basic rate tax payers later.

As it currently stands, these individuals would be able to withdraw surplus funds up to the higher rate tax bracket per annum and would therefore benefit from the differential between the two tax brackets; having paid into their pension as a higher rate tax payer whilst employed to then withdraw the money as a basic rate tax payer after retirement.

ANNUITIES

Whenever you decide to start receiving your pension benefits, you will normally need to buy a pension annuity in order to turn your pension fund(s) into a regular income for life.

You don't necessarily have to retire before buying your annuity; it will depend on your individual circumstances. Buying a pension annuity is an important one-off decision; as once you've bought your annuity you will only have a short period of time to change your mind.

The government introduced legislation in the 2011 Budget to remove the pension tax rules forcing all members of registered pension schemes to secure an income, usually through buying an annuity, by the age of 75.

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, some savings. You can buy your annuity from any provider and it certainly doesn't have to be with the company you had your pension plan with.

The amount of income you will receive from your annuity will vary between different insurance companies so it's important to obtain comparisons before making your decision.

Current UK pension legislation allows you to start taking your pension benefits from age 55. Before buying your pension annuity, you will normally be entitled to take up to 25 per cent of your pension fund(s) as a tax-free cash sum. The remainder of your fund is then used to buy your annuity. Alternatively, you can use your entire pension fund to buy your annuity.

The amount of income you'll be offered will largely depend on the following factors:

- the size of your pension fund annuity rates and market conditions when you buy
- your age, sex and postcode, (if provided)
- the annuity options you choose the state of your health and certain lifestyle choices.

Your annuity income will be subject to income tax and will depend on your individual circumstances.

Changes brought in on 6 April 2011 resulted in significant changes in allowable pension contribution levels

The Annual Allowance limit for tax relieved pension contributions reduced to £50,000 per tax year, down from the previous level of £255,000 per tax year (2010/11), with the Lifetime Allowance set to reduce after 6 April 2012 from £1.8 million to £1.5 million.

> "Money invested into a pension receives tax relief. That means your pension contributions (subject to limits set by the government) are increased by the percentage amount of your income tax bracket."

Two measures introduced:

Carry Forward of unused reliefs - Under certain circumstances, it is possible to exceed the £50,000 annual allowance and receive tax relief on the excess. If you have contributed less than £50,000 (to all UK pension arrangements) in any of the previous three tax years it is possible to carry forward the level of the unused relief to the current tax year. As this is a potentially complex area, advice should be sought.

Fixed Protection - Prior to 6 April 2012 it is possible to register for fixed protection and maintain a Personal Lifetime Allowance of £1.8 million when it reduces to £1.5 million. However, this protection is only valid so long as further contributions, or benefit accrual, to pensions cease. As this may have implications for active occupational Defined Benefit and Defined Contribution scheme members, it is imperative that advice is sought.

Self-Invested Personal Pensions

A pension remains one of the most tax-efficient ways of saving for your retirement. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision. However, the tax benefits will depend on your circumstances and tax rules are subject to change by the government.

One solution you may wish to consider if appropriate to your particular situation is a Self-Invested Personal Pension (SIPP). 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. However, unlike dividend payments received outside a SIPP, there is no 10 per cent tax credit applied to dividend payments within a SIPP.

PENSION WRAPPER

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

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

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

TAX RELIEF

SIPP investors also receive tax relief on their contributions. So you could potentially benefit from between 20 per cent to 50 per cent tax relief depending upon your own circumstances. You must pay sufficient tax at the higher/additional rate to claim the full tax relief via your tax return.

TAX ADVANTAGES

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

COMPOUND GROWTH

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

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

NOT SUBJECT TO TAX DECLARATION

Assets held within the pension fund that carry no tax at source, such as offshore investments and government gilts, are not subject to tax declaration or payments. If you are an experienced investor, then managing your own pension investments may be for you. However, you need to be comfortable that you have the skill and experience to make your own investment decisions and have sufficient time to monitor investment performance. So you can either take control of your investments or pay someone to do it for you. If you pay, your costs will increase for this facility.

MANAGING YOUR INVESTMENTS

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

> A pension remains one of the most tax-efficient ways of saving for your retirement. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision.

Annuities

An annuity is an investment which will pay you an income for the rest of your life, no matter how long you live. This is achieved by handing over your pension fund to an insurance company in return for an annuity when you retire. The insurer then guarantees to pay you an income for the rest of your life via the annuity.

Increasing longevity means that your annuity will have to last you for possibly 20 or even 30 years of retirement, making decisions around inflation proofing your income very important.

DIFFERENT TYPES OF ANNUITY

In the UK, there are basically two types of annuity:

- Pension annuities (compulsory purchase)
- Purchased life annuities (voluntary purchase).

All annuities share the following characteristics:

- They pay a level of guaranteed income;
- They turn a lump sum into a stream of future income;
- Lifetime annuities guarantee to pay an income for as long as you are alive, no matter how long you live;
- When you die, payments stop, unless you have chosen a joint life annuity, a guaranteed payment period or a value protected (money back) annuity.

THE 'OPEN MARKET OPTION' – GETTING THE BEST ANNUITY

The annuity market is very competitive and rates differ between annuity providers. You can substantially increase your pension income by purchasing your annuity from the company which pays the most income. This is called 'exercising the Open Market Option.'

Annuities have a number of important and valuable options that allow you to tailor the income to meet your personal circumstances. **The most important options are as follows:**

SINGLE OR JOINT

A single life annuity pays a secure level of income, but stops when you die. If you are married, it is possible to have a joint life annuity. This means that annuity payments will continue to your partner if you die first.

You can choose how much income your partner will receive after you have died. For example, a 50 per cent joint life annuity means that when you die, your partner will receive 50 per cent of your pension until he or she dies. But be aware that buying a guarantee will reduce the income payment slightly.

GUARANTEE PERIODS

You can purchase a five or 10 year guarantee to ensure that if you die soon after annuity purchase, your spouse will continue to receive your annuity income for five or 10 years.

Buying a guarantee will reduce the income payment slightly, but this is a valuable option if you want peace of mind.

If you select a five year guarantee (which is the norm), and died two years after purchase, your estate would continue to receive an income for the next three years.

ANNUITY PROTECTION

It is also possible to buy a 'money back' or 'value protected' annuity. If you die before reaching age 75, and you have not received a certain amount of annuity payments by that time, the balance will be paid as a lump sum. This lump sum has the rather clumsy name of 'an annuity protection lump sum death benefit' and is taxable at 35 per cent.

At present the annuity protection option is only offered by a small number of annuity providers, mainly those which offer enhanced annuity rates.

ESCALATING ANNUITY

A level annuity pays the highest income at the start and does not increase in the future, whereas an escalating annuity starts at a lower level, but increases each year. The increases can be constant, for instance, increasing by 3 per cent each year, or the increases can be linked to changes in the retail price index, more commonly known as index linking.

It is only natural to want the highest income, but you should not forget the effects of inflation. An increasing annuity may start lower, but it will pay out more income in the future. The corrosive effect of inflation should not be underestimated.

ENHANCED ANNUITIES

If you are a smoker, in poor health or have a life reducing medical condition it is worth ascertaining whether you are eligible for an 'enhanced' annuity. This may pay a higher income because a medical condition, which is likely to reduce your lifespan, means that the insurer probably will not have to pay out for as long as for someone in good health.

There are three basic types of enhanced annuities:

LIFESTYLE ANNUITIES

These take into account certain behavioural and environmental factors, as well as medical factors to determine if you have a reduced life expectancy.

Any factor that may reduce life expectancy may be considered. These include smoking (10 cigarettes, or the equivalent cigars or tobacco, a day for the last 10 years), obesity/high cholesterol, hypertension/ high blood pressure and diabetes.

IMPAIRED LIFE ANNUITIES

An impaired life annuity pays an even higher income for those who have significantly lower life expectancy. The insurer will require a medical report from your doctor (there is no need for you to have a medical examination).
Medical conditions such as heart attacks, heart surgery or angina, life threatening cancers, major organ diseases, such as: liver or kidney and other life threatening illnesses such as Parkinson's and strokes will be considered.

IMMEDIATE NEEDS ANNUITIES

These are designed for an elderly person who is terminally ill and about to enter a nursing home for the final years of their life. A lump sum payment will buy an immediate needs annuity, which guarantees payment of the elderly person's care until they die. These annuities are expected to normally pay out for around two to three years only.

WITH PROFITS ANNUITIES

With profit annuities pay an income for life, but the insurance company invests your pension fund in a with profits fund, (rather than fixed interest securities as happens with a conventional annuity).

A with profits annuitant therefore benefits from any future profits, but will also share in any of the losses in the with profit fund. You have to choose an 'assumed bonus rate' (ABR) of say three to 5 per cent.

As a rule of thumb, if the bonus actually paid by the insurance company exceeds the ABR, your income will rise. If it is less than your chosen ABR, your income will fall. This means that you have to be prepared to receive a fluctuating income, so they are only suitable for people who can afford to take this risk.

With-profits annuities have the normal annuity options, namely single or joint life, and a choice of guaranteed periods and payment frequencies.

FLEXIBLE ANNUITIES

A flexible annuity combines the advantages of an income for life with the advantages of a certain amount of flexibility and control over income payments, investment options and death benefits.

When a traditional (non-profit) annuity is set up, the options selected cannot be changed at a later date even if your circumstances change. For instance, if it is a joint life annuity and your partner dies first, the annuity cannot be re-priced to reflect the higher rates for a single life annuity. But a "flexible annuity" gives you income flexibility, investment control and choice of death benefits.

Consolidating pensions

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

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

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

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

- Bring all your pension investments into one, easy-to-manage wrapper
- Identify any underperforming and expensive investments with a view to switching these to more appropriate investments
- Accurately review your pension provision in order to identify whether you are on track.

WHY CONSOLIDATE YOUR PENSIONS?

Traditionally, personal pensions have favoured with-profits funds – low-risk investment funds that pool the policyholders' premiums. But many of these are now heavily invested in bonds to even out the stock market's ups and downs and, unfortunately, this can lead to diluted returns for investors. It's vital that you review your existing pensions to assess whether they are still meeting your needs – some with-profits funds may not penalise all investors for withdrawal, so a cost-free exit could be possible.

FOCUSING ON FUND PERFORMANCE

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

ECONOMIC AND MARKET MOVEMENTS

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

LACK OF THE LATEST INVESTMENT TECHNIQUES

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

SIGNIFICANT EQUITY EXPOSURE

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

Conversely, more people are now opting for pension income drawdown, rather than conventional annuities. For such people, a lifestyled policy may be inappropriate.

Locating a lost pension

If you think you may have an old pension but are not sure of the details, the Pension Tracing Service may be able to help. They will try and match the information you give them to one of the schemes on their database and inform you of the results. If they have made a match they will provide you with the contact address of the scheme(s) and you can get in touch with them to see if you have any pension benefits.

They will not be able to tell you if you have any entitlement to pension benefits, only the scheme administrator can give you this information and there is no charge for using this service which typically takes about 15 minutes to complete the form.

To trace a pension scheme by phone or post the Pension Tracing Service can be contacted by calling 0845 6002 537. Telephone lines are open Monday to Friday 8.00am to 6.00pm.

The Pension Tracing Service will need to know at least the name of your previous employer or pension scheme. If you can give them the following information they will have a better chance of finding a current contact and address for the scheme:

- the full name and address of your employer who ran the occupational pension scheme you are trying to trace. Did your employer change names, or was it part of a larger group of companies?
- the type of pension scheme you belonged to. For example was it an occupational pension scheme, personal pension scheme or a group personal pension scheme?
- when did you belong to this pension scheme?

For occupational pension schemes:

- did your employer trade under a different name?
- what type of business did your employer run?
- did your employer change address at any time?

For personal pension schemes:

- what was the name of your personal pension scheme?
- what address was it run from?

what was the name of the insurance company involved with your personal pension scheme?

Protection strategy

Having the correct protection strategy in place will enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. But choosing the right options can be difficult without obtaining professional advice to ensure you protect your family from financial hardship.

We can ensure that you find the right solutions to protect your assets and offer your family lasting benefits. It is essential that you are able to make an informed decision about the most suitable sum assured, premium, terms and payment provisions.

There are potentially three main scenarios that could put your family's financial security at risk: the death of you or your partner; you or your partner suffering from a critical condition or illness; and you or your partner being out of work due to an illness or redundancy.

We can help you calculate how much cover you may require, whether this is for capital or for income, or both. You may find that a lump sum of capital is needed to repay debt such as a mortgage or perhaps cover the cost of moving house. In addition, income may also be required to help cover your normal living expenses.

Think about how long you may require the cover and what you already have in place. We can help you review your existing policies and also take into consideration what your employer provides in the way of life insurance and sickness benefits.

PROTECTING YOUR FAMILY FROM FINANCIAL HARDSHIP

Whole-of-Life Assurance	Provides a guaranteed lump sum paid to your estate in the event of your premature death. To avoid Inheritance Tax and probate delays, policies should be set up and written under an appropriate trust.
Term Assurance	For capital needs, term insurance is one of the simplest and cheapest forms of life insurance. If you die during the term of a policy, a fixed amount of life insurance is paid, normally tax-free. A mortgage protection policy is a type of term insurance used to cover a repayment mortgage, with the death benefit reducing as the balance of your mortgage reduces.
Family Income Benefit	For income needs, family income benefit insurance is a worthwhile consideration. This can provide a monthly, quarterly or annual income, which under current rules is tax-free.
Critical Illness	To protect you if you or your partner should suffer from a specified critical condition or illness. Critical illness insurance normally pays benefits tax-free if you suffer from one or more illnesses, diseases or conditions specified in the policy terms. Without obtaining professional advice these can vary tremendously between providers, making it difficult to assess your precise needs. If you combine critical illness insurance with life insurance, claims are paid whether you die or suffer the critical illness.
Income Protection Insurance	Income protection insurance is designed to pay you a replacement income should you be unable to work due to accident, injury or illness. A replacement percentage of your income is paid until you return to work, retire or die. Rates vary according to the dangers associated with your occupation, age, state of health and gender.

PROTECTION

Wealth protection

Whatever happens in life, we can work with you to make sure that you and your family is provided for. Premature death, injury and serious illness can affect the most health conscious individuals and even the most diligent workers can be made redundant.

One important part of the wealth management process is to develop a protection strategy that continually remains relevant to your situation. We can help you put steps in place to protect your standard of living, and that of your family, in the event of an unexpected event. We achieve this by assessing your existing arrangements and providing you with guidance on how to protect your wealth and family.

Planning your legacy and passing on your wealth is another area that requires early planning. You might want it to pass directly to family members. You might want to leave a philanthropic legacy. You may even wish to reduce the effect of inheritance tax on your estate and consider the use of family trusts or charitable foundations. Or your wealth might encompass businesses, property and investments in the UK and abroad that require specialist considerations.

Making the right decision

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

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

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

LIFE ASSURANCE OPTIONS

Whole-of-life assurance plans can be used to ensure that a guaranteed lump sum is paid to your estate in the event of your premature death. To avoid inheritance tax and probate delays, policies should be set up under an appropriate trust.
Level term plans provide a lump sum for your beneficiaries in the event of your death over a specified term.

Family income benefit plans give a replacement income for beneficiaries on your premature death.
Decreasing term protection plans pay out a lump sum in the event of your death to cover a reducing liability for a fixed period, such as a repayment mortgage.

Simply having life assurance may not be sufficient. For instance, if you contracted a near-fatal disease or illness, how would you cope financially? You may not be able to work and so lose your income, but you are still alive so your life assurance does not pay out. And to compound the problem, you may also require additional expensive nursing care, have to adapt your home or even move to another more suitable property.

Income Protection Insurance (IPI) formerly known as permanent health insurance would make up a percentage of your lost income caused by an illness, accident or disability. Rates vary according to the dangers associated with your occupation, age, state of health and gender but IPI is particularly important if you are self employed or if you do not have an employer that would continue to pay your salary if you were unable to work.

If you are diagnosed with suffering from one of a number of specified 'critical' illnesses, a critical illness insurance policy would pay out a tax-free lump sum if the event occurred during the term of your policy. Many life insurance companies offer policies that cover you for both death and critical illness and will pay out the guaranteed benefit on the first event to occur.

Beyond taking the obvious step of ensuring that you have adequate insurance cover, you should also ensure that you have made a Will. A living Will makes clear your wishes in the event that, for example, you are pronounced clinically dead following an accident, and executes an enduring power of attorney, so that if you become incapable of managing your affairs as a result of an accident or illness, you can be reassured that responsibility will pass to someone you have chosen and trust.

Of course, all these protection options also apply to your spouse and to those who are in civil partnerships.

Long-term care

Insurance for long-term care means that you pay (either in premiums or a lump sum) for your provider to take care of costs for you. State provision is currently very complicated and typically only assists people once their personal assets have fallen below a certain level. The level of help also varies from one local authority to another.

COVERING LONG-TERM CARE COSTS

There are a number of ways of paying for long-term care. This can be directly from income or out of assets including selling the family home or releasing equity from it. There are three main ways of covering long-term care costs: insurance-based solutions, annuity or the state.

RISK-BASED PLANS

Risk-based plans, which may be funded by single or regular premiums, pay up to a pre-determined monthly limit - usually until the policyholder dies or the care is no longer needed.

Benefit payments are triggered when you are judged to be incapable of performing an agreed number of 'activities of daily life' such as washing, dressing or feeding yourself and moving from room to room. Payment of benefits starts after a 'waiting period', which varies from policy to policy.

The cost of the policy depends on:

- age, sex and state of health when the policy is taken out;
- the level of benefit;
- the number of 'activities of daily life' you are unable to perform before you can claim;
- the waiting period.

IMMEDIATE CARE PLANS

Immediate care plans are enhanced annuity products with higher payments than conventional annuities due to the lower life expectancy of the plan holder. This means that you pay a single lump sum in return for regular payments, either to yourself or the care provider. They are bought by people already in care or about to need care.

Under the terms of an immediate care plan, the provider pays you a guaranteed income for the rest of your life, which is used to pay long-term care costs. Each annuity is individually underwritten and quotations vary widely from provider to provider depending on their actuaries' views of your life expectancy. Typically you either choose to have your payments start straight away or defer them for up to five years. Choosing a deferred period is more cost effective and caters for those who can fund their care needs in the interim.

The payment is made up of taxable interest and a tax-free 'return of capital' element. The lower your life expectancy, the higher the return of capital element and the total level of benefit received. If the income is paid directly to the care provider, it is entirely free of tax.

It is also possible to guarantee payments for a minimum period of time (six months to five years), even if the annuitant dies in the interim, or link benefits to inflation - although such safeguards reduce the income yield on the annuity.

STATE COVER FOR LONG-TERM CARE COSTS

The extent of state cover for long-term care costs varies between across the U.K – although it is always means tested.

In England, Wales and Northern Ireland, means testing is used to agree how much of a personal contribution is required towards the cost of care. This is done by tariffs.

In Scotland, the payments are split between the NHS and the local authority Residents of care homes can apply for either or both benefits according to eligibility – also assessed by means testing.

MEANS TESTING

In January 2011 the UK government froze the capital threshold limits for means-tested care, and is not planning to look at this again until the next local government finance review in autumn 2012.

However, you will have to pay for care if your combined assets are currently greater than:

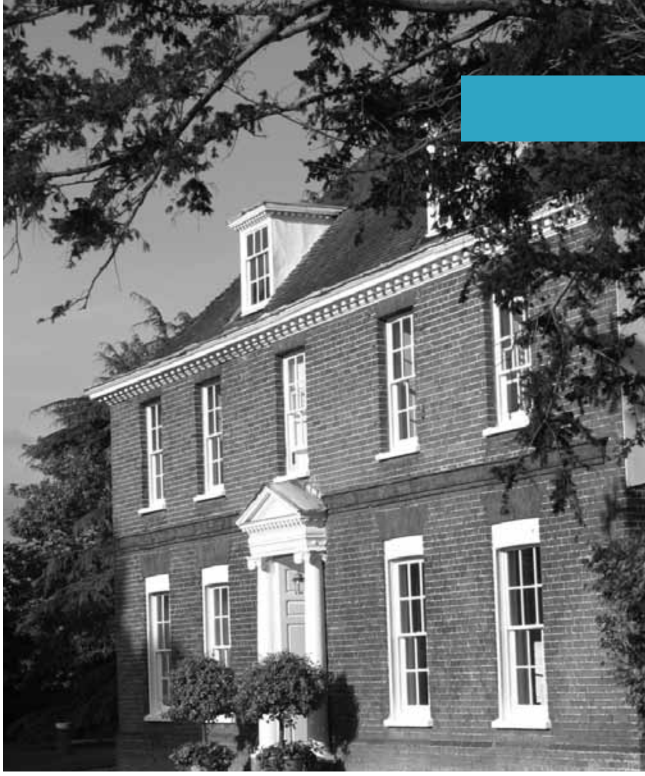
- England: £23,250
- Wales: £22,500
- Scotland: £23,500
- N.Ireland: £23,250

People in receipt of state help for long-term costs must pay their occupational and state pensions and any benefits to the local authority. Certain categories of income, such as income from savings, are disregarded. Other categories, like pension income that is paid to a spouse not living in the same residential or nursing home, are partially disregarded.

Relevant assets include cash deposits, investments, bonds, premium bonds, National Savings, shares, unit trusts, property and the family home (unless a spouse or dependent occupies the property).

The family home is disregarded for 12 weeks before it is taken into account for means-testing. It may also be possible to enter into a 'deferred agreement' with the local authority to allow it to recoup an outstanding debt at a later date, although these are rarely granted.

The care recipient can keep a personal expense allowance (PEA), which is disregarded for means-testing.


Inheritance tax

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

IHT is currently paid on amounts above £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2011/12 tax year, at a rate of 40 per cent. If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the IHT threshold, tax will be due on the balance at 40 per cent.

SUBSTANTIAL TAX LIABILITY

Without proper tax planning, many people could end up leaving a substantial tax liability on their death, considerably reducing the value of the estate passing to their chosen beneficiaries.

Your estate includes everything owned in your name, the share of anything owned jointly, gifts from which you keep back some benefit (such as a home given to a son or daughter but in which you still live) and assets held in some trusts from which you receive an income.

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

USEFUL FOR TAX PLANNING

Any amount of money given away outright to an individual is not counted for tax if the person making the gift survives for seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning.

Money put into a 'bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to prevent grandchildren, for example, from having access to it until they are 18.

NOT SUBJECT TO TAX

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the threshold are not subject to tax but amounts over this are taxed at 20 per cent with a further 20 per cent payable if the person making the gift dies within seven years.

Some cash gifts are exempt from tax regardless of the seven-year rule. Regular gifts from after-tax income, such as a monthly payment to a family member, are also exempt as long as you still have sufficient income to maintain your standard of living.

COMBINED TAX THRESHOLD

Any gifts between husbands and wives, or registered civil partners, are exempt from IHT whether they were made while both partners were still alive or left to the survivor on the death of the first. Tax will be due eventually when the surviving spouse or civil partner dies if the value of their estate is more than the combined tax threshold, currently £650,000.

If gifts are made that affect the liability to IHT and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift.

HOW MUCH TAX SHOULD BE PAID?

In most cases, IHT must be paid within six months from the end of the month in which the death occurs. If not, interest is charged on the unpaid amount. Tax on some assets, including land and buildings, can be deferred and paid in instalments over ten years. However, if the asset is sold before all the instalments have been paid, the outstanding amount must be paid. The IHT threshold in force at the time of death is used to calculate how much tax should be paid.

UK Trusts, passing assets to beneficiaries

You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away, this removes it from your estate provided you don't use it or get any benefit from it. But bear in mind that gifts into trust may be liable to inheritance tax.

Trusts offer a means of holding and managing money or property for people who may not be ready or able to manage it for themselves. Used in conjunction with a will, they can also help ensure that your assets are passed on in accordance with your wishes after you die. Here we take a look at the main types of UK family trust.

When writing a will, there are several kinds of trust that can be used to help minimise an inheritance tax (IHT) liability. On March 22, 2006 the government changed some of the rules regarding trusts and introduced some transitional rules for trusts set up before this date.

A trust might be created in various circumstances, for example:

- when someone is too young to handle their affairs
- when someone can't handle their affairs because they're incapacitated
- to pass on money or property while you're still alive
- under the terms of a will
- when someone dies without leaving a will (England and Wales only)

WHAT IS A TRUST?

A trust is an obligation binding a person called a trustee to deal with property in a particular way for the benefit of one or more 'beneficiaries'.

SETTLOR

The settlor creates the trust and puts property into it at the start, often adding more later. The settlor says in the trust deed how the trust's property and income should be used.

TRUSTEE

Trustees are the 'legal owners' of the trust property and must deal with it in the way set out in the trust deed. They also administer the trust. There can be one or more trustees.

BENEFICIARY

This is anyone who benefits from the property held in the trust. The trust deed may name the beneficiaries individually or define a class of beneficiary, such as the settlor's family.

TRUST PROPERTY

This is the property (or 'capital') that is put into the trust by the settlor. It can be anything, including:

- land or buildings
- investments
- money
- antiques or other valuable property

THE MAIN TYPES OF PRIVATE UK TRUST

BARE TRUST

In a bare trust the property is held in the trustee's name but the beneficiary can take actual possession of both the income and trust property whenever they want. The beneficiaries are named and cannot be changed.

You can gift assets to a child via a bare trust while you are alive, which will be treated as a Potentially Exempt Transfer (PET) until the child reaches age 18, (the age of majority in England and Wales), when the child can legally demand his or her share of the trust fund from the trustees.

All income arising within a bare trust in excess of £100 per annum will be treated as belonging to the parents (assuming that the gift was made by the parents). But providing the settlor survives seven years from the date of placing the assets in the trust, the assets can pass IHT free to a child at age 18.

LIFE INTEREST OR INTEREST IN POSSESSION TRUST

In an interest in possession trust the beneficiary has a legal right to all the trust's income (after tax and expenses), but not to the property of the trust.

These trusts are typically used to leave income arising from a trust to a second surviving spouse for the rest of their life. On their death, the trust property reverts to other beneficiaries, (known as the remaindermen), who are often the children from the first marriage.

You can, for example, set up an interest in possession trust in your will. You might then leave the income from the trust property to your spouse for life and the trust property itself to your children when your spouse dies.

With a life interest trust, the trustees often have a 'power of appointment', which means they can appoint capital to the beneficiaries (who can be from within a widely defined class, such as the settlor's extended family) when they see fit.

Where an interest in possession trust was in existence before March 22, 2006, the underlying capital is treated as belonging to the beneficiary or beneficiaries for IHT purposes, for example, it has to be included as part of their estate.

Transfers into interest in possession trusts after March 22, 2006 are taxable as follows:

- 20 per cent tax payable based on the amount gifted into the trust at the outset, which is in excess of the prevailing nil rate band

- Ten years after the trust was created, and on each subsequent ten-year anniversary, a periodic charge, currently 6 per cent, is applied to the portion of the trust assets that is in excess of the prevailing nil rate band.
- The value of the available 'nil rate band' on each ten-year anniversary may be reduced, for instance, by the initial amount of any new gifts put into the trust within seven years of its creation.
- There is also an exit charge on any distribution of trust assets between each ten-year anniversary.

DISCRETIONARY TRUST

The trustees of a discretionary trust decide how much income or capital, if any, to pay to each of the beneficiaries but none has an automatic right to either. The trust can have a widely defined class of beneficiaries, typically the settlor's extended family.

Discretionary trusts are a useful way to pass on property while the settlor is still alive and allows the settlor to keep some control over it through the terms of the trust deed.

Discretionary trusts are often used to gift assets to grandchildren, as the flexible nature of these trusts allows the settlor to wait and see how they turn out before making outright gifts.

Discretionary trusts also allow for changes in circumstances, such as divorce, re-marriage and the arrival of children and stepchildren after the establishment of the trust.

When any discretionary trust is wound up, an exit charge is payable of up to 6 per cent of the value of the remaining assets in the trust, subject to the reliefs for business and agricultural property.

ACCUMULATION AND MAINTENANCE TRUST

An accumulation and maintenance trust is used to provide money to look after children during the age of minority. Any income that isn't spent is added to the trust property, all of which later passes to the children.

In England and Wales the beneficiaries become entitled to the trust property when they reach the age of 18. At that point the trust turns into an 'interest in possession' trust. The position is different in Scotland, as, once a beneficiary reaches the age of 16, they could require the trustees to hand over the trust property.

Accumulation and maintenance trusts that were already established before 22 March 2006, and where the child is not entitled to access the trust property until an age up to 25, could be liable to an Inheritance Tax charge of up to 4.2 per cent of the value of the trust assets.

It has not been possible to create accumulation and maintenance trusts trust since 22 March 2006 for Inheritance Tax purposes. Instead, they are taxed for Inheritance Tax as discretionary trusts.

MIXED TRUST

A mixed trust may come about when one beneficiary of an accumulation and maintenance trust reaches 18 and others are still minors. Part of the trust then becomes an interest in possession trust.

TRUSTS FOR VULNERABLE PERSONS

These are special trusts, often discretionary trusts, arranged for a beneficiary who is mentally or physically disabled. They do not suffer from the IHT rules applicable to standard discretionary trusts and can be used without affecting entitlement to state benefits; however, strict rules apply.

TAX ON INCOME FROM UK TRUSTS

Trusts are taxed as entities in their own right. The beneficiaries pay tax separately on income they receive from the trust at their usual tax rates, after allowances.

TAXATION OF PROPERTY SETTLED ON TRUSTS

How a particular type of trust is charged to tax will depend upon the nature of that trust and how it falls within the taxing legislation. For example, a charge to IHT may arise when putting property into some trusts, and on other chargeable occasions – for instance, when further property is added to the trust, on distributions of capital from the trust or on the ten-yearly anniversary of the trust.

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