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MoneyMatters

July/August 2011

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Business
PROTECTION

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Do you need to plan for Long Term Care?

Being wise before the event is always a good move, protecting yourself and your family before care is needed could be key.

None of us can predict when or the duration for which long term care will be needed, but you can prepare yourself for its financial, practical, and emotional challenges. Care may be provided by family or friends but paid care often becomes a necessity. Whether care is provided at home or in a facility, for a few months or a few years, the costs quickly add up. By putting a financial plan in place now, can help protect your assets and give peace of mind.

Why should I plan for long term care?

There are three main reasons to plan for long term care, to protect your retirement assets, to minimise the burden on family members and to be in control of your care provisions.

Identify what financial options will work for you and your family in paying for possible long term care costs. Investigate all options and whether they are right for you. For many people, there isn't a single right answer. The best plan includes several elements; you might look to family members to support you and help you out. If so, you should let them know your expectations. Also plan to use personal savings, a long term care insurance policy or an equity release scheme. A plan which includes a combination of financial options is likely to be the better approach. If you think long term care insurance will be worthwhile, shop around for the best policy and always get advice from your professional financial adviser.

Why worry now about long term care?

As life expectancy increases, most of us will one day need assistance, provide assistance, or both. Long term care isn't only for the elderly. Many care recipients are people under the age of 65 who have suffered an accident or illness. More often now, families are spread far and wide with other responsibilities and careers, increasing the need for professional help.

How do I assess my needs for long term care?

The following factors help assess your risk.

- Age: The older you are or expect to be, the greater the probability that you'll need care.
- Marital status: Single people tend to require more paid care, since they generally have fewer family resources.
- Gender: Women are more likely than men to need care because they tend to live longer.
- Lifestyle: Diet, exercise, and other behaviours (riding a motorcycle or smoking, for example) can affect your risk of health problems and accidents.
- Family health history: Those who are genetically predisposed to long term illness are more likely to need care.

Checklists

- Long term care insurance comparison checklist
- How much life insurance do I need
- Retirement savings worksheet
- Retirement budget worksheet
- Personal records inventory
- Planning for long term care

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Give yourself more control of your financial future

It takes years to build up your investment portfolio, but if you don't get your tax planning right, all your hard work could go to waste.

So beyond using the full ISA allowances and making use of pensions where appropriate, what else can be used outside of these tax efficient wrappers?

Tax equality?

Not all returns from investments attract the same taxes. Income from shares, investment trusts, equity or property based unit trusts, are taxed as dividends. If you are a basic rate tax payer, you have no tax to pay as the notional 10 per cent tax credit covers your liability.

Higher rate tax payers have to pay 32.5 per cent or 42.5 per cent, again the 10 per cent credit can be used to offset against it.

Income from gilts, fixed interest funds and corporate bonds, are taxed as interest just like cash.

Use your allowance

Many investments are subject to Capital Gains Tax (CGT). The first £10,600 of capital gains you make in any year are tax free. This is a generous allowance but is often ignored. To use it, you need to crystallise a gain by selling some investments. If you don't use it, you lose it.

So the first part of your capital, not including your ISA or pension, is often held directly (not within a wrapper such as a bond or ISA). You could then consider selling part of your holding annually and switching it into an ISA. Switching £10,680 into an ISA won't cause a CGT liability on its own.

Investment bonds have had bad press in the past, the CGT rules were changed some years ago which made bonds look less attractive by comparison. Additionally, they were opaque products aggressively sold with high levels of charges and commissions. However, when used correctly, they can be very helpful, but they are quite complicated and require full understanding. There are two types of bonds, onshore and offshore bonds. Both are subject to income tax, not CGT.

During the life of an offshore bond, there is no tax (except for some withholding taxes) allowing 'gross roll up'. You defer tax until you encash all or part of the bond.

Portfolios are generally mixed with different asset classes, some money in equity, some in property and some in fixed interest (government/corporate bonds).

If the investor is a higher rate tax payer when the bond is encashed, they may have to pay 40 per cent tax on the gain. Fortunately, there are some techniques that can be used, such as assigning to a basic or non taxpaying spouse before selling, or staggering a sale over more than one tax year. These are complex, so you should generally seek advice.

An onshore bond is similar, but some tax is payable during the life of the bond at special life insurance rates.

An onshore bond can work well for equity income or property fund investments. Returns come in the form of dividends and there is no tax within the bond on dividends, other than the 10 per cent tax credit.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not a reliable indicator of future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

The pension landscape

Your pension is likely to be your second largest asset after your home and pension decisions are difficult to reverse. A big decision now is whether or not to buy an annuity, as the obligation to do so, after you reach a certain age, has been abolished.

For people without substantial savings, buying an annuity is generally the right choice, as it provides a guaranteed income for the remainder of your life, but it is wise to check the market for the best rates.

If you are in poor health generally, providers will sometimes offer you an enhanced deal, potentially up to 30 per cent more than for those in good health. If you are a smoker or if you have conditions such as high blood pressure, you may be able to gain better terms.

However, a drawback to an annuity is that it can be based on your age, lifestyle, health and payments cease when you die. Annuities can be purchased on a joint-life basis so that they continue to be paid to your spouse on your death, or with a guarantee that they will be paid for at least 5 or 10 years, regardless of whether you live or die. A more recent development is the capital protected annuity where the return on your death is the original investment less any income paid out, less 55 per cent tax. All of these options will tend to reduce the level of income payable from outset, ie: they cost.

A new consideration is the European Court ruling, which took place on 1 March 2011 to ban UK insurance firms from gender-pricing annuities. This ruling, will in effect, reduce the annuity income for men by up to 13 per cent, due to their life expectancy when compared to women.

Currently, annuities are individual to male and female life expectancy, but in December 2012 the rates become unisex. Annuity rates will be further worsened by another EU directive, Solvency II, which will come into effect in 2013, this will force life companies to value their annuity liabilities using government gilt rates, rather than the corporate bonds currently used which provide better returns.

With the annuity changes, pensions can now be used to pass assets to heirs free of inheritance tax, subject only to a 55 per cent 'recovery charge'. Previously the penalties in the old system could be as high as 82 per cent once unauthorised payment charges were added to IHT. Why a recovery charge? If you withdraw 25 per cent from an imaginary £100,000 fund as tax-free cash, then the new charge of 55 per cent on the remaining £75,000 works out at 41.25 per cent of the original £100,000, a little more than the initial relief high earners receive.

There are two new income drawdown options capped and flexible, both allow you to choose to take no income and tax-free cash can be paid at any time after the age of 55.

The 'unsecured pension' rules, which allow cash withdrawals subject to annual limits, will continue under the new capped rules; with the amount of drawdown being limited to 100 per cent of the relevant annuity calculation derived from the Government Actuary's Department tables, instead of the 120 per cent applied before 6 April 2011.

The flexible option allows room for manoeuvre beyond capped drawdown. You can draw unlimited amounts from your pension so long as you have secured a separate income of at least £20,000 per year, which is the "minimum income requirement". This must comprise of guaranteed payments, such as income from pensions.

Another important point from the new annuity rules is that compulsory annuitisation has always meant a cautious approach to investing in the last few years before the annuity purchase, with a gradual switch to low-risk bonds and cash.

Now that you will not be forced to irrevocably convert your savings into an annuity, you will be able to keep your investments in higher growth assets, including volatile assets such as equities.

Scheme pensions

People in ill-health have the option of the 'scheme pension', which sets income based on life expectancy. This may be of interest to men under the new unisex annuity regime.

The level of income drawn down is based on the individual's own life expectancy, taking into account their age and specific health problems, the size of the fund and the investment strategy. These amounts are likely to be generous because the aim is to deplete the fund at a rate that will consume all the capital during the member's lifetime.

To discuss how you can get the most out of your pension planning, please contact us for further information

Is there an *alternative* to PPI?

British banks are still reeling from the legal ruling forcing them to reopen thousands of claims over the mis-selling of payment protection insurance (PPI) and potentially pay up to £5bn in compensation.

The Financial Services Authority deemed these policies as too expensive and unsuitable for most customers but are there any alternatives?

Not all PPI policies are bad however and, in theory, there is nothing wrong with this type of insurance. There have been significant issues with whom it is sold to and how much it can cost. PPI is usually sold alongside loans and credit cards, designed to help you meet those repayments in the event of an accident, sickness or unemployment.

The problem with PPI is not with the insurance itself but how it was sold. For example, in most cases, the self-employed could not claim. Also, some companies were aggregating premiums for the full loan term into the loan capital, and then if someone paid the loan off after, say a couple of years, they would take eight years' unused premiums.

Worse still, people had signed up to buy PPI without realising it, or asking for it, and others have been unaware that it can be much cheaper to buy standalone PPI rather than buy a policy from the firm that sells you the mortgage, loan or credit card. Rules are now in place to improve PPI; where borrowers must be informed that the PPI is optional and not a prerequisite of the loan or for getting the loan. All PPI providers must show how many customers have made successful claims on their policies. With such bad press the new rules will do little to persuade many consumers that a protection product is a good idea. Fortunately, there are a few useful alternatives.

Permanent Health Insurance

Income protection insurance or permanent health insurance (PHI) is a good option, and typically pays out 50 to 60 per cent of your income if you cannot work (but does not automatically cover redundancy).

Your health and lifestyle is examined upfront, so pre-existing medical conditions and occupation are accounted for in the premium. For this reason, income protection policy payout rates are good.

The best and biggest benefit to income protection over PPI is flexibility. You decide when the cover starts, whether it's after one month or even a year of being unable to work. This enables you to fit the policy around any cover you have from your own savings or your employer and unlike PPI, which is short term and pays out for only one or two years, income protection is paid out until you either return to work or retire.

Critical Illness Insurance

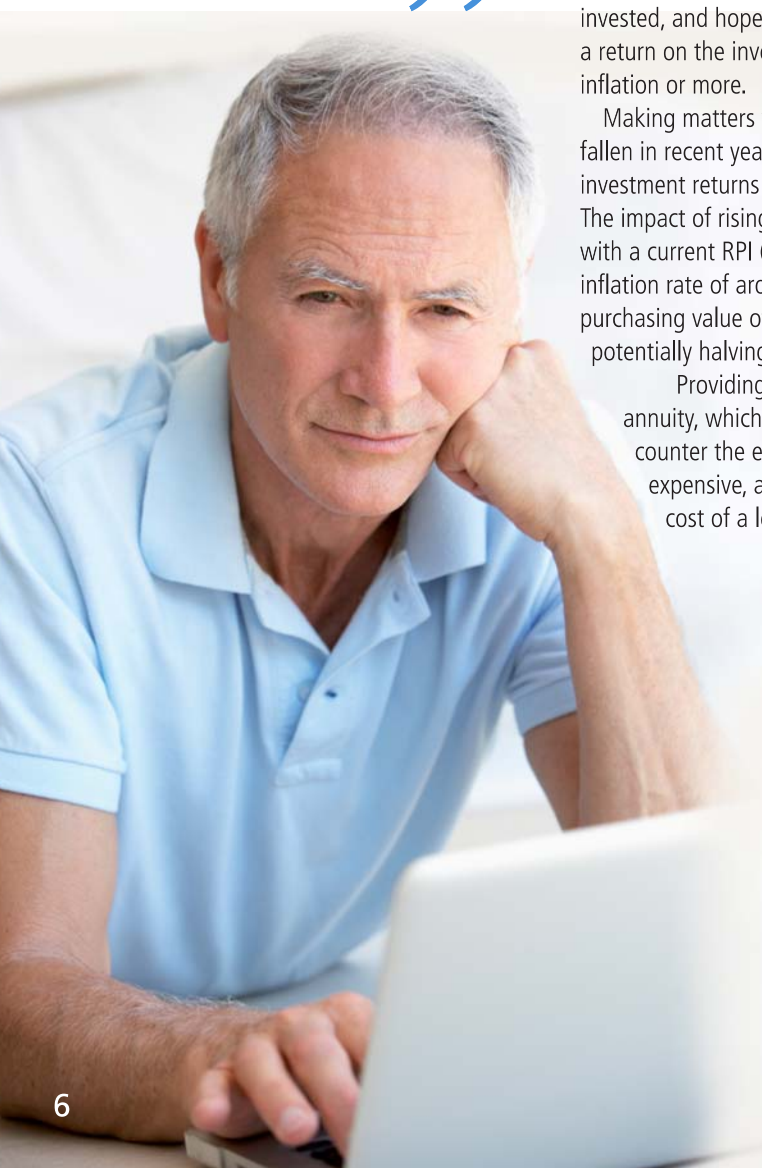
Critical Illness Insurance is worth consideration too, as it pays out a lump sum, rather than providing a regular income and works as additional protection if you can afford it. This is designed to help financially should you suffer from a serious illness such as cancer or a heart attack, but not accidents or conditions such as stress. It is often used to pay off a mortgage or other debts.

You can cover your own position by saving the recommended 6 months home expenses coverage for mortgages, bills etc. Additionally, check to see what sort of sick pay scheme is in place at work. Your employer may offer a top-up to statutory sick pay (SSP) so find out exactly what they would pay you and for how long. Then check state benefits to see what you would be entitled to if you were unable to work because of illness, accident or disability. SSP is paid for up to 28 weeks, covered by your employer, working out to £81.60 per week at the current rate.

Making sure you have adequate cover in place to protect yourself from being out of pocket as a result of an accident, sickness or unemployment is an important consideration, especially if you have a mortgage and a family to look after.

Inflation and your retirement

> " Inflation eats away at our spending power and nobody suffers more than those in retirement. Unless still in work, most pensioners have no means to recover the shortfall as the cost of living rises. "



Those in retirement are suffering from low interest rates on their savings and generally gain no benefit from lower mortgage repayments. Higher petrol costs hit older drivers hard, as many pensioners retire to rural areas where a car is a necessity.

When people plan their retirement, they need to investigate just how much money they will need to get by from one year to the next. In order to gain an accurate picture, it is important that they have reliable information on changes to the cost of living for people in their age group, and not just the population as a whole.

Of course a solution is an index-linked retirement income. Many in the public sector will receive an inflation-proof pension from their employer. But as final salary schemes in the private sector gradually disappear, it is up to individuals to provide their own inflation proofing, from an index-linked annuity or by drawdown from a pension fund which remains invested, and hopefully it manages to show a return on the investments in line with inflation or more.

Making matters worse annuity rates have fallen in recent years as a result of lower investment returns and increased longevity. The impact of rising inflation is stronger still with a current RPI (retail prices index) inflation rate of around 5.3 per cent, the purchasing value of a level annuity is potentially halving every ten years.

Providing your own index-linked annuity, which is the only safe way to counter the effects of inflation, is expensive, approximately double the cost of a level annuity.

So how much should you save to buy a reasonably comfortable index-linked retirement income? According to the OECD (Organisation for Economic Co-Operation and Development) we should aim for a pension of 70 per cent of the average pre-retirement income of £31,500, or around £22,000 a year. An individual with no company pension would therefore need to save around £355,500 to provide a level income of £22,000 at age 60. But to inflation proof the income you would need £610,000.

This is a worrying prospect, but the first thing to do is to look at what state pension you can expect, what company pension you might be entitled to and any other assets you may have. But some people still only rely on the equity in their property as their retirement fund, which may not be sufficient.

Many approaching retirement will probably buy an annuity to provide retirement income because that is what they have been brought up to expect. However, there is an increasing aversion to putting a large sum into an annuity, an income that disappears on your death? So is income drawdown, which leaves the fund invested with the hope of keeping pace with inflation, an answer.

You need to take into account the risks involved with income drawdown. Splitting the money into a level annuity and part drawdown is a possible solution for the cautious investor. There are higher charges involved in drawdown and an individual needs a drawdown fund of at least £150,000 to make it viable, plus other basic pension income.

The reality is that most people are very reluctant to forgo enjoyment and spending today in order to provide enough money for a comfortable retirement tomorrow.

The next generation will face a tougher world, with increasing life expectancy, the decline in final salary schemes and lower annuity rates. People are going to have to take greater responsibility for saving for their retirement and accept reality and the disastrous effects of inflation or face an impoverished retirement.

Unclaimed treasures

Vast sums of money lie unclaimed, when you include shares, National Savings and insurance plans lying dormant and it amounts to billions of pounds.

Millions of people are turning their backs on money that is rightfully theirs. It would certainly be better in your pocket or current bank account, so here are a few ideas to start your "treasure hunt "for some of the forgotten money.

Premium Bonds

Many Premium Bond prizes are unclaimed and range all the way up to £100,000 from £25.

If you think you may have left it too long to claim a prize, there is good news. There is no time limit for claiming these forgotten winnings.

National Savings & Investments (NS&I) say the most common reason for winners failing to claim was forgetting to pass on their new address when they moved. More than a third of people lost touch with their savings when they moved and failed to tell all their financial providers their new address, according to a survey for NS&I. Many people said they found it difficult to remember all of the accounts they had opened over the years.

Others had forgotten about bonds that they had been given as children.

Additionally prizes could also go unclaimed if the winners had died and their executors were unaware that they owned any bonds.

You can check whether you have won any of the unclaimed prizes, by visiting NS&I's website (nsandi.com) and entering your Premium Bond holder's number.

Bank and Building Society Accounts

Banks have between £250 and £350 million waiting to be collected, which includes money left in accounts with around 500 banks over the past 100 or so years, according to unclaimedassets.co.uk.

It is thought that between £130 and £150 million is lying unclaimed in building society accounts. All building societies have signed up to the mylostaccount.org.uk service. That means you should be able to trace money left in any of the 1,500 building societies that have been around in the past 100 or so years, but have since been taken over or merged into others.

National Savings & Investment Accounts

There are hundreds of millions of pounds of unclaimed money in dormant NS&I accounts but if you also consider other NS&I products like unclaimed premium bond prizes, the figure is around £1 billion. Source: Daily Mail.

Some £400 million of unclaimed money is in fixed interest savings certificates with a further £80 million in index linked savings certificates. Another £260 million of the forgotten money is tied up in the investment account.

A good place to start looking for money tied up in NS&I products is www.nsandi.com/help/tracing_service or through the mylostaccount website.

Unit Trusts, Stocks and Shares

Research by specialists Mintel suggests that there is at least £12 billion of shares from privatised companies which has never been claimed. This means the dividends on these shares has never been paid.

Registrars admit the old system of share certificates, rather than holding shares through nominees, meant that shareholders simply "vanished", usually because they moved and never supplied forwarding addresses.

You can trace your claim by using the unclaimed assets register, which may be able to help at www.uar.co.uk/benefit.htm, but they do charge a fee.

Life Insurance and Pensions

Large insurance companies have said that they have life policies which have never been claimed on and pensions savings which have never been paid out. It is thought that there could be over £300 million of pension money unclaimed and another £100 million due to be paid out on life policies according to the Daily Telegraph.

For your research, use the unclaimed assets register –www.uar.co.uk/benefit.htm and the place to begin your pension search is at the Pension Tracing Service. You can call 0845 6002 537, visit – www.direct.gov.uk or write to Pension Tracing Service, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA.

In a volatile market, how are your investments affected?

INVESTMENT

When markets are in turmoil, the concern is about how your investments will be affected. Yet, with sound long term planning, short term market volatility need not be a concern.

We all know with recent events just how unpredictable stock markets can be. The 'credit crunch', higher interest rates and a number of other factors saw the markets beset by volatility and people were understandably concerned that their investments may lose money. With the risk of a 'double dip' recession, it is important to understand exactly what market volatility is and why many in the sector believe investors should consider such movements as a normal and healthy feature of stock market investing.

Understanding volatility

Stock markets go up and down all the time, this is typical of the way they operate. Historically markets have followed an upward trend, even in times of short term volatility, fluctuations, both positive and negative can be sudden and dramatic, and can "catch out" even the most experienced investor.

When markets are volatile the reaction can often be to move as far away from shares as possible and towards less risky assets like cash and fixed interest securities such as bonds. However, by staying in the market, investors can take advantage of volatility, by looking to buy shares when they actually cost less.

Timing the market, which is spotting the lowest of the low points, and the highest of the highs, is difficult. Diversification, though, is easy and effective. The starting point is an accurate assessment of your tolerance to risk as well as your appetite for loss.

During volatile times you will feel very exposed unless your portfolio has been moulded around your own personal risk profile. The skill of a professional financial adviser will ensure your portfolio represents an individually tailored, diversified solution that aims to respond in accordance with the amount of risk you are willing to take.

Making the right choice

Choosing the right stocks and shares, or the right bonds, is key to securing performance and successfully riding out volatility. But which shares are right and which are the right sectors to invest in? Once again diversification and expertise are key. Investment funds, run by professional, well-resourced fund managers can offer a route to both.

You can pick investment funds that invest in stocks and shares, or bonds, or a mixture of assets. Whichever you choose, you have the expertise of a fund manager aiming to tailor their fund to today's markets, also the fact that any fund invests in a range of different companies' shares or bonds gives you diversification in itself.

The logical response of a volatile market is that it creates good buying opportunities as shares actually cost less.

Investors need to review their investments regularly to make sure they match their risk profile, and the market conditions. Which option or route you take depends on what kind of investor you are.

There are more options available now in a volatile market than ever before, but you need to decide on your attitude to risk and decide what you want, you should always seek professional financial advice to ascertain your needs.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Business Protection

Whether you are a Director, Sole Trader, Partnership or Limited Company, the Owner / Directors are often seen as key ie: people without whom the business would struggle or even fold.

A key person for this type of insurance is described as: someone with specialist skills or knowledge or particularly important areas of responsibility whose loss to a business would adversely affect its profitability. This would certainly be the Owner or Directors and other key employees.

The need for Keyman insurance is to compensate a business for loss of profits on the death, critical illness, or incapacity as a result of sickness or accident of an employee.

As a business owner you will have considered disaster recovery and contingency planning; but have you thought about how the loss of a particular person would impact on the profitability of the company?

The financial impact may include: -

- Loss of new business secured by the key person
- Loss of access to loan finance dependent on the key person
- Necessity to suspend or stop production of certain products on the loss of the key person
- The cost of recruiting and / or training a replacement

Keyman Insurance exists because such necessary employees/directors cannot be quickly replaced if at all and the business would suffer. Keyman Insurance allows the business to have a cash injection in order that the profits are protected whilst a replacement is found, ensuring that despite any downturn in business the company can still pay its creditors, salaries and continue trading.

When it comes to choosing Keyman Insurance, you should decide on the policy meeting your needs, it should be created with a full understanding of exactly what the cover is for and why, you need to ensure the policy is fully explained to you so you know exactly what you are covered for.

Types of cover

There are various types of insurance policy that can be used. Often there is a short term need for cover during an important project. In this situation, a term assurance policy tends to be the most popular choice.

When a person is going to remain key to the business over the longer term or throughout his or her working life, such as the owner or managing director of the business, whole of life assurance will be more appropriate.

Insurance for Partnerships

Partnerships in England and Wales are not a separate legal entity, so where the key person cover is for an individual partner, the policy can either be taken out jointly by all the partners, in which case it becomes a partnership asset or, alternatively, the key partner could take out a policy and place it in trust for the other partners.

Some lenders may require a business to take out Keyman Insurance on people they consider important before capitalising the business. In this case, it is still usually up to the business to pay the premiums on the Keyman Insurance, but the lender is listed as the beneficiary, should the crucial person die, the bank can recover some part, if not all, of the capital they originally invested. Some businesses choose to take out additional Keyman Insurance beyond what the lenders require, listing themselves as the beneficiary for the amount in excess of the lenders' requirements.

One of the most common uses of Keyman Insurance is to buy back shares in a company from the estate of the deceased. Particularly in the case of the death of a founding partner or majority holder, this could be crucial in helping the business retain stable control.

Is a pension right for everyone?

Saving into a pension has obvious benefits for higher rate taxpayers, but what about those earning less?

Is a pension the right choice...

A couple of facts:
1) We're are all living longer on average.
2) Paying for retirement is getting more difficult. The problem is that generous final salary pensions, which typically provided two-thirds of income at retirement for life, are dying a slow and painful death. Just 21 per cent of private sector final salary schemes are still open to new joiners, compared with 88 per cent ten years ago, according to the National Association of Pensions Funds.

The state is making it clear that we all have to think about supporting ourselves more in retirement, but by how much? A proposed "top-up" to the state pension should provide around £7,300 a year, according to SAGA, at today's prices, then consider that a £100,000 pension pot buys a 65-year-old man an income of around £6,000 a year. Add that to the state pension and we get £13,300 a year (£20,600 for a couple). Therefore, to achieve a comfortable income in old age, the pension pot needs to be much larger.

The ultimate question

Is a personal pension the best place to save?

For higher rate taxpayers earning more than £42,500 a year, the benefits of a personal pension are without question. You can get 40 per cent tax back on pension contributions, depending on how much income tax you pay, which grows tax-free.

If you are an additional-rate tax payer (ie: 50 per cent), you may be able to claim additional tax relief at your highest rate. Depending on how much you earn over the higher rate tax band, and your level of contribution, any additional rate tax relief would range between a further 1 per cent up to a maximum of 30 per cent.

There are very good alternatives to pensions, which could be better suited to basic rate taxpayers. Individual Savings Accounts (ISAs) were launched some 12 years ago and have proved extremely popular. However, ISA contributions do not attract tax relief whereas pensions do.

If you had contributed the maximum into a cash ISA every year of the last 12 years, at the top rate, they would have accrued in the region of £40,000, as £3600 over 10 years equates to £36,000 without interest.

And that is only within cash ISA savings accounts. Some smarter savers who invested in stocks and shares ISAs for the longer term may be sitting on much higher pots, as they could have invested in funds which have performed well over time, or by exposing their capital to higher risks which have paid off.

Company pensions are an excellent idea

You need to check whether your employer offers a company scheme. If they do, then typically your company will make a contribution to it to boost the money you are willing to put aside. Sometimes they will as much as double the amount you put in.

So if you put in 5 per cent of your salary, your employer might put in the equivalent of 5 per cent as well. Depending on the terms of the company scheme you could find that you have a very respectable total contribution getting stashed away for old age. Please be aware that employer contributions do not benefit from tax relief and are paid gross.

Work benefits

Get an instant pay rise with a company pension, it is effectively free money. You have to be prepared to divert some of your salary towards the pension, but it is a very effective perk.

In future all employers will have to offer and contribute to a pension to help more people save for their retirement. Employers who haven't offered an occupational pension in the past may set up their own scheme, or may pay pensions into a new central scheme called National Employment Savings Trust (NEST). The requirement on employers will be introduced in stages from 2012. Employees will get at least a 2 per cent contribution from the Government and their employer.

Should I consider a personal pension?

Is a personal pension from a company or is an ISA a better way to save if you are a 20 per cent taxpayer?

How much you do you value having access to your cash? You need to consider any money saved into a pension cannot be accessed before age 55.

Those on lower incomes but with some money to save should think about using ISAs, but remember that ISAs do not attract tax relief whereas contributions to a pension do.

Crucially, a fund built up via a pension holds significantly more benefit if you're paying at a lower tax rate when claiming your income in retirement than when you put cash in.

Get 20 per cent tax-back... and keep it

Currently someone aged between 64 and 75 can have an income of £9,940 tax-free, (after the state pension is deducted which is £5,300), they can still earn £4,640 without paying any tax.

For a couple, this is income of £9,280 before any tax is paid. If they had paid into separate pensions they will have got 20 per cent tax relief when they paid into the pension (paying in £80 gets converted into £100 by the Government as a rebate) and they won't have paid tax on the way out. The tax advantages are even greater as 25 per cent of your total pension pot can be taken as a tax-free lump sum at retirement, which doesn't count towards your personal allowance.

Releasing equity from your home

Equity release allows you to turn your property into cash. These schemes can help you pay for many things such as home improvements, a wedding, a new car, a holiday, or simply just provide extra income.

Different to selling-up and downsizing, releasing equity allows you to continue to live in your home while benefiting from the property value that has potentially built up over the years.

However, there is a note of caution. Equity release loans, also known as home income plans, have attracted criticism in the past for being expensive and not appropriate for many homeowners, who may take on extra debt unnecessarily.
To understand the pros and cons of equity release, please read our guide below.

What is equity release?

There are two kinds of equity release: lifetime mortgages and home reversion schemes. These plans are only available to older homeowners. Schemes can have a minimum age as low as 50, whilst for others the age limit is as high as 70.

Lifetime mortgages, or "roll-up" mortgages, are a type of home loan secured against your property. There are usually limits on the percentage value available and this limit can vary with age, ie: the older you are, the higher the percentage available. Interest is due on the amount borrowed but it is "rolled up" until you either die, sell the property or go into long term care.

Homeowners over the age of 65 could opt for Reversion Schemes which involve selling all or part of your home to an equity release company for less than its market value. No interest is payable and you can remain living in the property until you die, or have to go into long term care. When such occurs, the company sells the property and takes its share from the proceeds, including any growth in value.

Are there other options?

There can be disadvantages to these schemes; state benefit entitlement could be reduced, meaning you may have to pay for dental treatment, glasses etc.
The interest rate on lifetime mortgages is generally higher than on standard home loans, so many advisers recommend homeowners to explore other ways of releasing cash. Some other options would be using existing savings, taking out an interest-only loan, down-sizing your property or even taking financial support from within the family.

Discuss with your family

Releasing equity will mean that your estate will be worth less on death, so it is worth informing any beneficiaries that they will lose a portion of their inheritance. It is important to make clear to them the full implications of your decision, to avoid any misunderstandings and recriminations at a later date.

Get professional advice

Equity release loans can be complex therefore it may be difficult to find the best deal yourself. It is advisable to consult a professional adviser to guide you through the different choices. Ask your adviser about equity release fees, make sure you get value for money and contact your Citizen Advice Bureau or Local Authority who can advise you on your entitlement to welfare benefits.

Drawdown or lump sum?

If you decide to take out a lifetime mortgage, you have the choice between a lump sum or opting to draw the cash in monthly instalments. If you suffer from ill-health or are quite old, you could lose out by opting for income drawdown.

Minimise risks

Equity release plans are regulated by the Financial Services Authority, which enables borrowers a course of redress from the Financial Services Compensation Scheme if something goes wrong. Safe Home Income Plans (SHIP), the self-regulatory body for the equity release industry, has a list of its members which offer borrowers guarantees, including the right to live in the property for life and the ability to move to a new property without penalty. Additionally they provide a guarantee that there will be no negative equity, meaning that borrowers will never owe more than the value of their home. Please ensure your lender is a member of SHIP before making any decision.

Inheritance Tax Planning & Equity Release

Equity release can offer a way of reducing the value of your estate when you die, this happens when you either spend or give it in the form of gifts to your children tax free. IHT is currently charged at 40 per cent of your assets above £325,000, therefore if you reduce your estate value you will not have to pay as much inheritance tax.

AN EQUITY RELEASE PLAN WILL REDUCE THE VALUE OF YOUR ESTATE, WILL NOT BE SUITABLE FOR EVERYONE AND MAY AFFECT YOUR ENTITLEMENT TO STATE BENEFIT.

THESE ARE LIFETIME MORTGAGES AND HOME REVERSION PLANS. TO UNDERSTAND THE FEATURES AND RISKS ASK FOR A PERSONALISED ILLUSTRATION

Inflation proof your finances

The effect of inflation is the greatest concern for many savers and investors alike, it eats into people's savings faster than they can grow. Inflation is currently running at around 4 per cent, and it looks like increasing, therefore it has become more important than ever to choose the right type of investing to protect your savings.

Here are some guidelines on how to protect your finances from inflation.

1. Don't leave all your money in cash

Money sitting in bank or building society deposit accounts is guaranteed to be eroded by inflation when low interest rates and tax are taken into account.

The most generous savings products tend to be linked to retail price inflation only, and real prices paid by pensioners who see real inflation which may be greatly in excess of the conventional basket of goods.

2. Move into equities

Equities are very volatile as an asset class in the short term, but they are also one of the best at growing their real value over the long term.

If you are investing for five to ten years or longer, you should consider investing at least some of your money in equities. There is a stark point to reflect on, if inflation runs at 5 per cent a year for ten years £100,000 will only be worth around £61,000.

The only real option for investors is to invest in asset backed investments such as equities and property which have generally outperformed inflation and structured in a well balanced portfolio which reflects the level of term of the investment.

The important consideration is getting the asset allocation model right and then to populate the portfolio with low cost trackers and passive funds.

3. Bond funds and gilts

The government's backed index-linked certificates have once again become available and are proving extremely attractive, other alternatives are index-linked gilts and bond funds.

These types of investments are only attractive in the short term, index-linked bond funds are quite attractive, but as inflation may fall in 2012, they should only be considered as a short term solution.

4. Investing in commodities

Commodities have a good track record of outperforming inflation. However, the best may be over as the 'easy' money has largely already been made with this asset class.

Commodity prices and mining stock valuations have performed extremely well in recent times and there are many speculative opinions on how much further they will go. Some say that speculation will only emphasise swings in prices and does not alter their long term trends and recent sell offs might provide buying opportunities.

5. Maximise your allowances

You should be making full use of your annual ISA allowance of £10,680. The amount can be either divided equally into cash ISA and the rest in a stocks and shares ISA, or the whole amount can be placed within a stocks and shares ISA.

Pensions remain the most tax efficient investment you can make, especially if you are a higher rate tax payer. Annual contributions to a personal pension are limited to 100 per cent of gross UK earnings, subject to a new maximum of £50,000. The new £50,000 annual pension contribution limit will apply to each of the last three tax years and can be used to make up any allowance not utilised previously in those tax years. There is no limit to the number of pension plans you can contribute to, so long as the overall maximum limits are kept to. Any income or capital gains made within a pension plan are free of income tax and capital gains tax.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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