FINANCIAL MANAGEMENT IN RETIREMENT

A common sense guide to managing personal finance at the point of retirement

Introduction

**"Give a man a fish, feed him for a day.
Teach a man to fish, feed him for a lifetime"**

Chinese Proverb

You, like most people may have avoided change and welcomed the status quo of 'getting by' in life. Changing is difficult. Forced changed is even more difficult and often unnerving. Life changing events such as retirement forces you to take action, to look outside of the box and perhaps move outside your own comfort zones.

Personal finance is an area where attention is required. Whilst employed the majority are comfortable with lifestyle requirements being met by earned income. However, while working we have little time to attend to personal finance matters despite knowing that we should, and despite the guilt we continue to bury our heads in the sand. Sound familiar? Well don't worry because you are certainly not alone. Now is the time to wrench your head from the sand, to face your personal financial concerns, and carry out a thorough MONEY MOT that will provide you with an immediate and longer term financial plan to meet your retirement goals.

There are many different financial matters that you will need to understand and consider. This booklet is designed to raise your financial awareness and provide a straightforward guide. It deals with subjects such as:

- Coping with the lifestyle transition.
- Money management and budgeting in retirement.
- Taxation, long term care, estate and equity release considerations.
- Replacing company benefits.
- Pension and investment choices in retirement.

In writing this guide one thing that became apparent and concerning is its length. While we offer an apology for this and we offer the excuse that it should be used more as a reference guide, with you reading the sections relevant to your particular circumstances.

This guide is designed to provide a better understanding of the financial matters that may affect you. The issues covered are generic and do not constitute individual financial advice. Henwood Court therefore takes no responsibility for any actions you take in response to reading this booklet. Individual professional financial advice should be sought to ensure you are making the correct financial decisions. While you will find this booklet useful, it is designed to be thought provoking and encourage you to seek personal one on one advice.

Indeed, this guide is not designed to cover all the topics in detail. Instead, we would welcome the opportunity to discuss your particular financial concerns before working out a more comprehensive financial plan for your future.

Don't act on instinct, take professional advice.

"Adding value through simplifying financial advice".

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Retirement … The Longest Holiday

Transitions

We all look forward to the day when we can retire. Free from the stress and pressures of work. To have time to do the things we want to do. To read the books we never got around to. To enjoy leisure and sporting activities during the week. To take holidays on the spur of the moment, and more often. To just relax!

As good as this sounds, to many people this is frightening. We are after all creatures of habit, and having spent all of our life in a controlled routine to have this taken away can be very destabilising. Our own need for stability and the institutions we belong to tend to prepare us for continuity rather than change.

There is definitely an emotional dimension to retirement which should be considered and acknowledged. A mixture of feelings is generated. These range from excitement to fear, and usually include at some point a sense of loss. Security is most often the result of being with familiar people, surroundings and relationships. Yet, change occurs and will continue to happen as a normal condition of life and personal growth.

"It is not the strongest of the species that survive, not the most intelligent, but the ones most responsive to change"
Charles Darwin

To some, the idea of change is stimulating and exciting, to others it fosters feelings of insecurity and anxiety. For many it is a complex combination of fluctuating feelings and reactions and no two people react or respond in the same way to change.

Retirement is a classic example of a life transition. A life transition is the movement from one stage to another and results in a significant change in routine and the 'known'. Indeed, in this new phase many of us can expect to live for another 20-25 years after retirement. Our working life as a proportion of our total lifespan has decreased over previous generations. Medical advances have also improved the quality of life, and anyone retiring in the 21st century can look forward to a time of active creativity.

Adjusting to a new lifestyle begins by rejecting any thought of it as the end of something. Retirement should be seen as the beginning of a new period in life, which has all the potential for fulfilment that was part of working life, but with greater freedom and the opportunity to take control. While working our lifestyles are controlled and effectively dictated around work often with insufficient time for family, holidays, hobbies and 'me' time.

Once we retire we have to establish the agenda and build a lifestyle around our wants and requirements with account taken of course of our continued responsibilities.

As with most things in life, this will present challenges as well as opportunities, and a lot of planning is needed to make it a success. Remember, that most things are within your control. What you change and how you change it is up to you, limited only by your personal circumstances and imagination!

Ask yourself some searching questions:

• What is your current lifestyle balance? There are 168 hours in a week, what are you currently doing during these hours.
• What about the perceptions and wishes of those close to you?
• How will you fill potentially 40 hours extra per week?
• What do you want to keep? What do you want to lose? What do you want more or less of?

And remember, you are getting no younger, while you are healthy enough and have the inclination to enjoy an active retirement do so!

<u>Money Management</u>

Will your money last as long as you?

• **Budgeting**

Unfortunately retiring in comfort does not happen by accident for the majority of people; it needs planning and plans should be made as early as possible to meet your future needs.

Generally the objective is to build as large a 'retirement pot' as possible while in work. This will require sound investment decisions based on your circumstances and attitude to investing in the various types of funds available including a pension plan.

The next step is to calculate the money you will require to live on once you stop working altogether. Crucially, you will need to review how best to extract the income you require from your 'pot', but this requires expertise to put you into the best possible position. It does not stop there! Once you have decided on a suitable course of action, you will need to ensure you keep up to date with your position and any options that may be available to you, at least once per year.

It is absolutely essential that you have an understanding of your weekly, monthly and annual expenditure commitments. Finishing this exercise can be of great comfort since eventually it confirms how much you will require to afford your desired retirement lifestyle and what action needs to be taken.

See Schedule A for a more detailed budget planner. This may be used to calculate your current and projected retirement expenditure. On request, this can be also provided on a spreadsheet.

You may find it helpful to break down expenditure into three different categories, essential expenditure, luxury expenditure and disposable (surplus) income. Of course, everyone has a differing view on what is and isn't essential, but as a general rule, these should include items that you have to spend to 'keep the wolf from the door'. Luxury expenditure may include holidays, socialising and funding hobbies. Having taken out these items of expenditure you may be fortunate enough to be left with a surplus income. True surplus income is an amount that you could do without, or more logically, the money you may save for a future purpose. However, you must be realistic, if you arrive at a surplus income following completion of the budget planner, are you sure this amount can be saved, or is it actually been spent? If so, then you must dissect this surplus income and place it into the essential or luxury expenditure category.

It is crucial to identify if there is a shortfall between your pension income and your retirement needs and to take steps to alleviate any shortfall. Henwood Court can help you with this calculation and suggest the best way forward to achieve your retirement goals and make the most effective use of all your financial resources. This can involve one of many financial strategies including investing for income or embracing the investment 'total return philosophy' which are covered later within this document.

• Should I repay all or part of my mortgage?

If you have elected to commute a lump sum from your pension this will give you the opportunity to repay part or maybe even all of the mortgage debt and often this is very tempting.

The decision about whether to repay the mortgage or not is very much a personal one. There is no right or wrong answer. However, there are certain situations when perhaps the mortgage debt should be repaid. These are:

- If you have a low risk profile and generally tend to keep your savings on deposit, then repaying the mortgage as opposed to leaving funds on deposit will be suitable given that you are likely be to paying a higher rate of interest to your lender than you will receive in interest payments from a de posit account. However, be sure to maintain access to an emergency fund.
- If you need to reduce your financial outgoings or enhance your retirement income, and you have other capital resources to act as an emergency fund and call upon once the debt is repaid. Repaying a debt reduces your outgoings and therefore your need for an income.
- Individuals with no tolerance of risk and the repayment of the mortgage debt will allow for a 'bet ter nights sleep'.

However, there are other situations when the mortgage should continue to be repaid out of income as this will 'free' the commutation cheque for other purposes particularly if the mortgage is affordable out of income. This can include, funding early retirement, or planned purchases such as a holiday home, a once in a lifetime holiday or a car. By simply using the cash to repay the mortgage you may be missing an opportunity. 'Cash is King' in retirement and having access to money over and above your pension income provides additional financial security and peace of mind. Using the bulk of funds to redeem your mortgage debt may not therefore be the most sensible strategy.

Of course, if you have any expensive unsecured debts, then provided there are not any steep redemption penalties, serious consideration should be given to repaying these liabilities.

Pension Choices and Options in Retirement

• **How will you take your pension benefits?**

Perhaps the most important decision you will make once you have decided to retire, is on what basis you take your pension. This will vary on the type of pension scheme you are a member of.

If you are a member of a final salary pension scheme then your pension will be calculated as a fraction (accrual rate) of your final salary. There are many different accrual rates which are set by the administrators of your pension scheme. The benefit you receive will be worked out by dividing the number of complete years you have been a scheme member by the accrual rate and multiplying this by the final pensionable salary.

Example:

Jack joined his company and the pension scheme on the 1st July 1993.

Jack retired from the company on the 1st July 2006.

His pensionable service was 13 years, and his final salary was £24,000 per annum.

Therefore, Jack's retirement pension:

13 (years pensionable service) x £24,000 (final salary) = £5,200 per annum.
60 (accrual rate)

Jack's pension may have been reduced if he chose to commute a tax-free lump sum from the scheme. With some schemes it is compulsory that a lump-sum is taken. This option is covered below.

If you are a member of an Occupational Money Purchase Scheme, Group Personal Pension, or/and you have made your own provision via a personal or stakeholder pension you will have a number of choices to make. These pensions' are accumulated via employer and/or employee contributions which are invested within asset classes that you have selected. At retirement you may take a tax-free lump sum of up to 25% of the fund value and use the balance to either purchase an annuity or move into a more flexible pension arrangement. If you opt for an annuity be sure that you consider an 'Open Market Option' that allows you to shop around for the best rates currently on offer by different providers. You are not usually obliged to take an annuity from the same company you have saved your pension fund with.

However, be careful to check whether your annuity has a guaranteed rate attached as this may be very valuable and may provide for a significantly higher pension annuity.
For further information relating to annuities and flexible pension alternatives please see Schedule B.

• **Pension Commutation**

If you have any kind of pension scheme the maximum tax-free lump sum you may take is 25% of the value of your pension fund. Exactly what that means in cash terms is, of course, impossible to calculate until you come to retirement because it will depend on the size of your fund at that time.
Taking a lump sum out of your pension fund and giving up a proportion of pension income is known as "commutation".

Why you would take a tax-free lump sum?
There are many reasons why you may wish to consider taking out a tax-free lump sum from your pension fund. As previously mentioned, 'cash is king' in retirement, it can fund the world cruise, perhaps, or a new car might spring to mind first but they aren't necessarily the right reasons! Many people may find themselves with a mortgage that still has a few years left to run when they reach retirement. Taking a lump sum out of your pension fund to pay off the mortgage immediately would save on interest charges and could actually increase your disposable income in retirement.
Alternatively, you could use the lump sum itself to boost your income in retirement by investing it. Remember that your pension benefits are potentially taxable. Therefore, you may wish to use the tax-free lump sum to buy a purchased life annuity that offers tax advantages over a standard pension annuity or a more tax efficient income generating investment.
Furthermore, this may provide benefits to your Spouse giving them access to the capital of your death and indeed monies ultimately been left to the estate on their death providing a benefit to your beneficiaries.

• **The State Pension Scheme**

What is it?
State Pension is for people who have reached State Pension age. It is based on National Insurance (NI) contributions and is made up of different elements.

State Pension age
From 6 April 2020, the State Pension age for women will be 65, the same as for men. Women's State Pension age will start to change gradually from 2010.

This will not affect women born on or before 5 April 1950, who can still claim their State Pension at 60. Women born on or after 6 April 1955 will have a State Pension age of 65.

A recent White Paper (May 2006) proposes to increase the state retirement age from 65 to 66 over two years between 2024 and 2026 and from 66 to 67 between 2034 and 2036 and to 68 between 2044 and 2046.

Can I get it?

Have you:
- Reached State Pension age?
- Paid or been credited with NI contributions or has your husband or wife?

If you answered YES to both, you can claim State Pension.

State Pension is made up of the following:

Basic State Pension
The Basic State Pension is based on how many NI contributions you have paid, been treated as having paid or been credited with. If you do not have enough, you may be able to pay some extra contributions.

Additional State Pension (also known as The Second State Pension SERPS or State Second Pension)
Depending on your individual circumstances, you may be entitled to additional State Pension. As its name suggests, the additional State Pension is paid in addition to the basic State Pension.

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

Long-term Incapacity Benefit Age Addition to State Pension
Your State Pension will be automatically and permanently increased if you were getting long-term Incapacity Benefit Age Addition at anytime within the period of 8 weeks ending on the day before you reach State Pension age.
Your long-term Incapacity Benefit Age Addition will be reduced if you are getting any additional State Pension. This may mean no long-term Incapacity Benefit Age Addition is payable.
The rate you get will be the same as that which is paid with your Incapacity Benefit.

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

What else should I know?

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

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

If you are a widow or widower, you may be able to get a State Pension based on your husband's or wife's additional State Pension.

If you are already a widow or widower you can get up to 100% of your late husband's or wife's additional State Pension.

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

If your husband or wife is due to reach State Pension age after 5 October 2002 but before 6 October 2010, when they die you will receive a maximum of between 90% and 60% of their SERPS pension. The exact amount will depend on when, in this period, they reach State Pension age.

If you husband or wife is due to reach State Pension age on or after 6 October 2010, you will receive up to 50% of their SERPS pension when they die.

The maximum amount of additional State Pension that a surviving husband or wife can inherit will be 50%.

If you are divorced and cannot get a full basic State Pension based on your NI contributions, you may be able to get a basic State Pension based on your former husband's or wife's NI contributions. They do not need to be getting their State Pension.

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

How much will I get?

Only use these amounts as a guide. The rules for benefits mean that your individual circumstances may affect the amount you can get. This means you will not always be able to work out exactly how much you will get by using these amounts.

Basic State Pension (per week from 12 April 2009)

All benefits are reviewed each year with most benefits being up rated in April.

Increases in the basic state pension will be re-linked to wages by 2012 'subject to affordability and fiscal position'.

Based on your own or your late spouse's NI contributions	£95.70
Based on your spouse's NI contributions	£57.05
Non-contributory Over 80 pension	£57.05
Age Addition	£0.25

Additional State Pension

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

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

Graduated Retirement Benefit

Based on your graduated NI Contributions paid between April 1961 and April 1975. For every £7.50 (man) or £9 (woman) of graduated contributions paid you get 9.63 pence (in 2004/05).

And Finally,

You may obtain a State Pension forecast from The Department of Social Security by completing form BR19. To request a form please call 0845 3000168 or visit web-site:

http://www.thepensionservice.gov.uk/atoz/atozdetailed/rpforecast.asp

How you pay tax on your pension?

Any contributions that you pay into your pension scheme during your working life receive tax relief at your highest rate of income tax. Unfortunately, the government's largesse does not extend to pensions in payment. When you come to retire and take your pension, your pension income is taxable as "earned income".

Defined Benefit company pensions are paid with basic rate tax deducted at source. Your personal tax allowance rises at age 65 and again at age 75 (See Schedule C), allowing you to keep more of your money. However, some pensioners still end up having to tackle self-assessment tax returns and pay higher rate tax on their pensions. Retirement annuities are also paid net of basic rate tax. However, if you are a non-taxpayer (because your income is lower than your tax allowance, for example), you can arrange to have your retirement annuities paid with no tax deducted by filling in form R89 or form R86 if the annuities are held jointly. These forms are available from your local tax office. You may also access form R86 via the Inland Revenue website.

The State Pension is paid gross (without tax deducted). However, if you are a tax payer, then to ensure that you pay the correct amount of tax your tax-code is adjusted accordingly which will mean that you may pay additional tax on any private and/or occupational pensions in payment.

Example:

Jane is 55 and has retired on a pension amounting to £15,000 per annum.
Her net pension income will total:
£6,435 – 0% tax
£8,565 – 20% tax = £1,713

Total tax = £1,713
Total net income = £13,287 per annum or £1,107 per month.

Pensions in payment have no liability to National Insurance.

2009/10 Tax Rates. Please note that the personal allowance increases from age 65 onwards. Hence if Jane was 65 she would have a personal allowance of £9,400

Pensions in payment have no liability to National Insurance.

Financial Considerations in Retirement

Investments Options

Too often an individual's investment choices are driven by the features and benefits of investment products. This is largely a result of financial services 'big budget' sales and marketing strategies that emphasize the particular benefits of their products. Benefits such as guaranteed, high monthly income, past performance and tax free. These encourage demand, but may be responsible for people buying unsuitable investment products that fail to meet with their expectations. This in turn fosters the poor reputation of the financial services industry.

At outset, rather that considering the features and benefits of investment schemes, you should be considering what you are investing for adopting a goal based or lifestyle investment strategy. This will encourage you to construct a bespoke investment portfolio, as opposed to buying investment products 'off the shelf' adopting a 'one size fits all approach'.

Whether you are an experienced investor and have accumulated pot of money for use in retirement, or you have received a lump-sum for the first time from your tax-free payment commuted from your pension, your objectives will be the same, to ensure that your capital combined of course with other resources, provides for your lifestyle needs and comfort in retirement.

To achieve this of course firstly you need to have agreed on what you wish to do in retirement, and perhaps more importantly, how much is this going to cost? Then, and only then, you can establish an appropriate investment strategy that will meet these retirement ambitions.

This will mean you moving any existing investments, or recently received capital onto a suitable retirement platform. This will involve measuring your current asset allocation to assess the levels or risk within your portfolio with account taken of your current financial position. It is generally accepted that as we get older we should take less risk with our capital investments. This is largely because we may not be able to afford investment losses and also do not have the time for markets to recover either because we will need access to funds or because of life expectancy issues. However, given that today's retirees' can expect to enjoy possibly 20 or more years in retirement, perhaps this view needs to reconsidered. However, your risk tolerance should be dictated by your objectives to ensure that your asset allocation matches your requirements and will enable you to enjoy a financially comfortable retirement. Asset allocation is considered further in Schedule D.

Growth

If your annual expenditure is met by your annual pension income(s), but you need your capital to fund ad hoc expenditure (holidays, new car, home improvements etc), then it is likely that you may embrace a growth strategy.

This strategy involves you leaving a sum of money available to meet anticipated and unforeseen expenditure over the next five years. The balance may be invested with the objective of achieving more competitive returns than deposit backed investments. These investments should be flexible to allow for a change in objectives during the quoted period. Once the accessible funds have been exhausted, then withdrawals should be made from the investment portfolio and the cycle repeated during the course of your lifetime.

This strategy will allow your selected fund managers to adopt a 'total return philosophy' where they are given the freedom to invest in assets for growth within a selected risk profile, as opposed to restricting the fund manager to invest for income, where they will be investing in assets that produce a certain yield as opposed to their growth prospects. Furthermore, any income provided by the growth investments will be reinvested which will boost the long term returns of the investment when compounded over a period of time.

Of course, when adopting this approach, account should be taken of the likelihood that you will spend more within the early years of retirement than the later. Furthermore, the strategy should be monitored on a regular basis to ensure that your needs and objectives continue to be met by the most appropriate financial strategy.

Income

If having reviewed your financial incomings and outgoings you have a deficit, then you may need to use your capital to provide for an investment income.

Again account should be taken of your needs and requirements. It may be that by using capital to reduce outgoings, such as by repaying a mortgage or unsecured debt, this will eliminate or reduce the need for an investment income.

An investment income will ideally be inflation proof, in that it will provide for capital appreciation and a rising income. However, this will not be achieved by leaving monies within a bank or building society account/bond. While there will no risk to capital within deposit backed investments, by taking a monthly income from the generated interest there will be no capital appreciation eroding the real value of your capital over time, and unless interest rates increase, your level of income will reduce in real terms. Hence, if you are seeking a rising income, then collective investments as described in Schedule E will need to be considered. Of course, consideration needs to be given to your income needs and risk profile, with a view to designing a tailor made portfolio that will give you sufficient income in the immediate and longer term.

However, if your income shortfall cannot be met by your investment income, then following a thorough review of your outgoings, a strategy should be established that will enable your capital to meet your outgoings and provide for your needs for as long as possible, and ideally until a period when your financial outgoings may have fallen.

Conversely, if you are not spending all of the investment income, and monies are accumulating within a deposit account, then you should consider stopping all or some of this income. This is because potentially better returns will be achieved allowing funds to accumulate within the investment particularly when considering the benefits of compound interest.

The various investment types are further considered in Schedule E.

Estate Planning

Will

As part of an overall estate planning programme a correctly drafted will would ensure that you estate is distributed in accordance with your wishes and could also reduce any liability to Inheritance Tax on death. This is an absolute essential element in organising your financial affairs. If you do not have a will, then this along with budget planning should be at the top of your 'to do list'.

If you already have a will it is important that it is reviewed with a solicitor on a regular basis in order to ensure that the detail remains applicable to your circumstances.

Further information relating to Wills can be found in Schedule F.

Appointing an Enduring Power of Attorney

In later life, many of us become infirm and unable to adequately manage our affairs. In this instance the Court of Protection acts to ensure that your interests are protected. The Court of Protection will usually appoint a member of your family to manage your assets, but this appointment will involve both considerable effort and extra cost.

As an alternative to this you can, whilst you are still in good mental health, appoint an Enduring Power of Attorney to act on your behalf. This enables you to appoint someone to manage your finances without their needing to apply to the Court of Protection for authority to do this.

The attorney that you appoint must act in your best interests and is unable to give away your assets, other than normal size gifts in consideration of birthdays etc. The power continues beyond any incapacity, but ceases upon your death.

The power to manage your affairs could be given to your spouse, children or another trusted person including your solicitor. The power can be given to one individual solely or to a number of individuals acting jointly.
Should you wish to affect an Enduring Power of Attorney then you should consult your solicitor who will be able to arrange this for you.

Inheritance Tax Planning

Inheritance Tax – A Working Example – Solutions to mitigate the tax

Inheritance tax is payable on total assets held at the time of a persons death. The first £325,000.00 (known as the nil rate band and figures based on tax-year 2009-10) passing at that time will not give rise to a liability but when it exceeds this figure there will be a liability to tax on the excess at a flat rate of 40%. For married couples or civil partnerships this is aggregated so on the death of the last survivor the nil rate band is doubled, effectively £650,000 for tax-year 2009/10.

Example

"In 2002 Mr. & Mrs. Smith had an estate worth £900,000. In 2006 Mr. Smith died leaving his total estate now worth £1.2m to his Wife. Due to the inter spouse exemption no inheritance tax is payable on assets left to the surviving spouse. Shortly after, in April 2009, Mrs. Smith died leaving her total estate worth £1.3m to her son John. To calculate the amount of tax that John would have to pay we simply deduct the current nil rate band of £325,000 plus an allowance of £325,000 for Mr. Smith from the estate value leaving a taxable estate amounting to £650,000 (£1,300,000 - £650,000). This is then taxed at a flat 40%, resulting in a potential bill of £260,000".

Mr. & Mrs. Smith could have considered a number of options to mitigate their estate's liability to inheritance tax. Listed briefly below are the most favoured options. These are explored in more detail within more comprehensive guides that are available on request or within the website.

1. Spend! This is often overlooked but can be a very effective means of reducing a liability. It is also the most enjoyable method. Having said that, in practice it is very difficult to achieve as it invariably involves changing the spending habits of a lifetime and should you need your capital to generate income, then this can be impracticable.

2. Make Gifts. Consider gifting capital to your beneficiaries now. Whilst you would lose access to the capital should you survive seven years after the gift is made this will then be outside of your estate for tax purposes. The main reason for not gifting is to ensure that you retain access to the capital to cover unforeseen expenses or to generate income.

3. Gifts into Trust (or Beating the Tax). Consideration may also be given to gifting capital into trust. A reasonable sum would need to be invested to achieve the tax saving required, although any amount is infinitely better than nothing. If there is a need (income, access to capital) from any capital placed in trust, there are a few schemes worthy of consideration and one of these is to set up a Loan Trust.

With this type of scheme, a capital sum would be invested into a single premium investment bond that is then placed into the trust. With immediate effect, ALL growth is outside your estate with the original capital invested remaining inside your estate. This has the effect of freezing the taxable value the gift although if you elected to take an income, this would be reduced each year by the level of income received. This should be more than replaced by the actual growth of the bond itself.

This is a fairly simple yet effective method of reducing the tax liability whilst enjoying an income.

As an alternative to the Loan Trust or to compliment it, a Discounted Gift Scheme could be considered. With this type of plan, again a lump sum is invested that is written in trust. Then, depending upon your age, sex and health, the Capital Taxes Office deem that a proportion of the capital invested to be outside an estate immediately with the balance outside after seven years, so in effect, we may achieve both an instant and a future tax saving. This plan does not allow access to the capital but a regular income is payable.

4. Transfer monies into an investment portfolio that invests within the Alternative Investment Market (AIM), which qualifies for Business Property Relief and will mean funds once held for at least two years will be exempt from Inheritance Tax.

5. Wrap existing life assurance and death-in-service plans in a trust. There are two ways that this may be achieved. If feel that your spouse (if applicable) can managed without a life assurance payment then the benefits may be simply wrapped in trust for children or selected beneficiaries thus avoiding liability to inheritance tax. Should the surviving spouse wish to have control and potential access to the benefit gifted into a trust then consideration could be given to a pilot discretionary trust. Independent legal advice should be sought in relation to this area

6. Insure the Liability (or Meeting the Tax). Probably the simplest way of making provision for the tax, this involves taking out a life assurance plan to pay out a capital sum on your death to pay some or all of the tax. The big advantage of this type of plan is that the full benefit is outside the estate from day one with no seven-year wait once the plan is written in trust. The main disadvantage is that a monthly or annual premium is payable to secure the benefits.

Whilst this plan will meet rather than beat the tax, it cannot be ignored, especially if you are willing and able to pay the premiums.

In conclusion, there are a variety of methods we can employ to mitigate an inheritance tax liability and it may be that we shall need to consider some of the above plans to achieve this. Choosing the most appropriate method is difficult and will depend upon your own needs and wishes.

Inheritance tax planning is a very complex area and one that involves individual advice and assistance. This guide is designed to provide you with a preliminary understanding of the issued involved prior to a one-to-one consultation.

Please note that the Financial Services Authority does not regulate all of the matters covered above.

Long Term Care

Long Term Care is the provision of personal and nursing care for people who are unable to look after themselves without some form of help. It is needed for conditions which are only likely to get worse.

The costs of providing care

On average, the fees in a nursing home in the UK are £18,700 per annum (Source Age Concern). However, would you class yourself as average? Would you be happy with average quality care? In fact many people prefer to receive care in their own home, an option that does require a significant income to fund. Around £17,000 per annum will buy you just four hours of care per day, enough only for rise and retire (Source: British Nursing Association, November 1999).

What does the Government Provide?

In April 1993 the Community Care Act came into force in the UK. It removed responsibility for assessing needs and paying for care from the Department of Social security to local authorities with limited and varied budgets. The amount of support provided will depend on where you live as well as your personal circumstances.

Local authorities means test individuals in order to determine whether financial assistance will be granted. If an elderly person has more than £18,500 in assets they will get no help towards nursing home fees. Once their assets fall below this level, the local authority will pay part or all of the fees although the elderly person will still have to make a contribution from assets worth between £18,500 and £11,500. Nursing care is now free up to a limit. Accommodation and other costs however will still be paid by the individual. The means test will also take the main residence (home) into consideration after three months.

If the elderly person has a spouse living with them, the home is discounted from the means test. However, when the person left at the home dies or needs care themselves – then the local authority can put a charge on the home with interest.

Many elderly people wonder about the feasibility of transferring ownership of their property and capital to their children, so that its value cannot be eroded by care costs or be taken into account as part of their capital for assessment purposes. However, if a local authority suspects that assets were disposed of with the intention of avoiding the costs of care, they can pursue both the person who disposed of the assets and the recipient with no time limit. A court will decide on the intention behind the transfer. Another disadvantage of transferring property ownership, is that on disposal (sale), the children may have a Capital Gain Tax liability to pay which would not have been the case if the property remained in their parent(s) possession.

Methods of Private Funding

1. Insurance Plans

In exchange for a lump sum or regular premiums, once a claim has been admitted an insurance company will pay a benefit direct to the nursing home of the elderly persons choosing. This benefit will usually be paid once the insured person is unable to perform two or three items on a list of activities of daily living.

The benefit is also paid when the elderly person can be seen to be suffering from a certain degree of mental impairment. Benefits are paid direct to the nursing home or care provider. Long term care payments are tax free.

The benefit level will be set by determining the income shortfall should care be required. Care should be taken to ensure the insurance plan is linked to Retail Prices to ensure the amount of cover remains sufficient.

By taking out long term care insurance, you will be protecting your estate and possibly improving your quality of life in your later years. Whilst recent changes have improved state provision, many people will still face problems financing care and most importantly, will have to sell their house and other assets to pay for their care costs.

2. Immediate Provision

For many elderly people it will be too late to buy insurance. In these cases it may be worth considering an annuity if the costs of care can not be afforded out of investment income. An annuity guarantees to pay a certain income for life in return for a lump sum payment. Several insurers are prepared to offer higher incomes for impaired lives, that is if the life assured's medical condition indicates they have a lower than average life expectancy. Competitive quotations should be provided from all providers.

Equity Release

Why consider an equity release scheme?

We view equity release schemes as a 'necessary evil' for many people in retirement and are very much a 'last resort' option when other financial options and resources have been exhausted. That said; they have enriched many people's lives by giving access to cash and allowing them to enjoy a much more fun filled and comfortable retirement.
When you take out any type of equity release scheme you use part of the capital 'tied up' in the value of your home to raise extra income or a cash lump sum, or both. You keep the right to live in your home for the rest of your life.

There are many reasons why you may be thinking about equity release.

- Your home may be your most valuable possession and investment, but you may be 'asset rich and cash poor'- living in a valuable property, with the mortgage paid off, but surviving on a relatively low income.
- If you have been retired for some time you may find that your income and savings do not meet all your financial needs. Your day-to-day living costs may have gone up while your income has stayed unchanged, or gone down, as a result of inflation or low yields from investments or savings.
- You may want to get hold of a cash lump sum to pay for repairs or adaptations to your home, or to replace a car or to pay for 'extras' like holidays. You may want to raise some cash to help your children or grandchildren. Turning some of the value of your home into cash can help pay for any of these things - cash raised through an equity release scheme does not have to be spent on your home or used to buy an annuity.

It is, of course, vital that you realise that once you spend this money, it has gone - just as if it had been any other kind of savings or income. You need to consider very carefully just how urgent your financial needs are, and whether an equity release scheme is the best way of solving the problem.

Any scheme you take out will have an effect on the value of your home and on the value of your estate when you die.

Given the negative impact an equity release scheme will have on the value of your estate, we strongly recommend that you consult with the beneficiaries of your estate prior to entering into an equity release arrangement.
The various types of equity release schemes are summarised in Schedule I.

Replacing Company Benefits

A theme running through this brochure is to 'take your time' and fully explore your options. However, one area in which you will need to act on ideally prior to leaving your employer is to replace the death-in-service benefit often provided by employers. Of course, should you have no financial dependants then this is not such an important issue. However, if you have financial dependants that will be financially worse off as a result of you death then private life assurance provision needs to be considered immediately.

The reason why this should be considered prior to leaving your employer is the fact that it may take a few months for your life assurance application to be accepted due to underwriting requirements. There are certain insurers (subject to health) who will provide immediate cover while considering your application and thereby avoid the underwriting delays. Such providers should be considered. Of course, protection may be provided by the pension scheme in the form of a lump sum payment or spouse/dependent's pension. Details relating to this should be clarified so that your own personal life assurance shortfalls may be ascertained.

I have seen numerous examples provided by life insurers detailing the amount of life assurance people should have. We do not agree with these generic assumptions. The life assurance requirement is dictated by the expenditure levels of a particular family unit, and the degree to which they would want financial normality to continue in the event of the death of a breadwinner. The first stage in calculating life assurance requirements therefore is to calculate the annual expenditure. Then consideration needs to be given to how much this would be in the event of a breadwinner's death. Then of course consideration needs to be given to what existing provisions are in place. These include existing life assurance, capital resources, pension and/or investment income that may be available, and of course the surviving (if applicable) breadwinners income/pension. Consideration of future expenditure (inflation) also need to be accounted for. Only once all this has been considered can a life assurance shortfall be calculated.

Types of life assurance

Level Term Assurance

You can use this cover to protect you, your family, your mortgage or a business, for a fixed monthly premium throughout the term you have chosen. The amount of life cover you have chosen will be paid out as a lump sum if you die, or are diagnosed with a terminal illness and are eligible to claim before the term ends.

Family Income Benefit

Family Income Insurance is designed to provide a monthly income to a family after the death of its principle provider or their partner. The payments will continue at the value specified in the policy until the policy expires. These payments can be index linked to rise in line with inflation or continue at a flat rate.

Policies can be single or joint policies; in the case of joint policies the policy will pay out at the death of either policyholder, but it does not pay out twice if both policyholders die.

Please note that an income is only paid to the dependents up to the expiry date of the policy. At the end of the specified period all payments will cease and the policy never has a surrender value.

Consideration should be given to protection against suffering a critical illness or long term disability. Often the financial vulnerability created by such an event is greater than in the event of death.

And finally, your employer may provide you with private medical insurance which will cease once you retire. Having benefited from this protection whilst employed you may wish for this benefit to continue into retirement. You should check with your employer if you are able to continue with the existing policy with you taking over the premiums. This can often be arranged, however, you may be required to pay the full market cost for such a plan. Alternatively, you can shop around for a more bespoke and/or more competitively priced plan.

Why Henwood Court Financial Planning?

At Henwood Court Financial Planning we truly believe in independent financial advice. We are not transaction based advisers who simply sell products. We are professional advisers specialising in retirement counselling available to help you at a time of need.

We have a wealth of experience with dealing with clients made redundant and are therefore familiar and sympathetic with the financial concerns you will have. Our role is to provide a professional hand holding service negotiating an exit strategy from your employers, assessing your requirements whilst in-between jobs, and implementing a longer term strategy once you have secured suitable alternative employment.

The quality of advice we provide is achieved by taking care to understand your needs and aspirations; by taking pride in ensuring that our recommendations are flexible enough to meet your precise requirements. This is proven by the many client relationships we have established and the high levels of satisfaction expressed by our clients as a result of our service.

To arrange for a financial consultation either call us on 0845 055 1970 or e-mail info@henwoodcourt.com

For further information visit our web-site – www.henwoodcourt.com

Schedule A
Budget Planner

OUTGOING	CURRENT	FUTURE*
Mortgage / Rent	£	£
Loan Repayments	£	£
Other HP	£	£
Council Tax	£	£
Water Rates	£	£
Telephone Bills	£	£
Home Insurance	£	£
Electricity Bills	£	£
Gas Bills	£	£
Life Assurance	£	£
Household Items	£	£
Food - Home	£	£
- Lunches	£	£
- Snacks	£	£
- Eating Out	£	£
School Fees/Further Edu	£	£
Drinks/Cigarettes	£	£
Cinema/Theatre/Social	£	£
Sporting Costs	£	£
Holidays	£	£
Presents	£	£
Books & Stamps	£	£
Newspapers	£	£
Hairdressing	£	£
Clothing	£	£
TV Licence	£	£
Car Repair / Parking	£	£
Car Insurance/Tax	£	£
Petrol	£	£
Travel	£	£
Bank Fees	£	£
Membership Fees	£	£
Savings	£	£
Other	£	£
TOTAL EXPENDITURE	**£**	**£**

* This section should be completed if you anticipate a change in financial circumstances that will impact on your expenditure levels (i.e. repayment of your mortgage or retirement).

Schedule B
Retirement Options

When you retire (although you could continue to work and derive a pension income) there are various vehicles that will provide for a pension income. These are summarised below.

Annuity

An annuity is a financial arrangement in which you make a lump-sum capital investment from which you receive a guaranteed level of income.

Most annuities are bought using funds held in money purchase pension schemes. The annuity you buy is usually arranged to pay you an income for life, although it can be arranged to pay you an income for a fixed period.

When your pension fund reaches maturity, your pension provider will advise you of the fund value, and general information about annuities and the level of annuity income you would receive. You are then entitled to use your 'Open Market Option', which allows you to transfer the fund value to another annuity provider of your choice. This enables you to take advantage of a higher annuity income which may be available from a different provider.

You are normally entitled to take up to 25% of your pension fund as tax-free cash. The rest of the fund must be used to purchase an annuity, called a Compulsory Purchase Annuity, before you reach 75 years of age.

Open Market Option

*"You have the right to buy an annuity from the best provider in the market place, as rates and performance vary greatly from company to company, the difference between the best and the worst can be as much as *30% - 40%".*

*source: Money Management Aug '03

Your pension provider will forward details of your pension fund and the annuity rate they will give shortly before your anticipated retirement date. You could be one of the lucky few who are offered a **guaranteed rate** which would be difficult to better elsewhere.

However, these are rare as few providers offer such terms, so in most cases we strongly recommend that you give us the opportunity to obtain comparative annuity quotations on your behalf, taking advantage of your Open Market Option rights, as you do not have to purchase your annuity from your pension provider. It is quite feasible that you could increase your income significantly.

This must be done on a strictly like for like basis, as there are many factors which affect the amount you receive, such as age, sex and health. (See our section on **enhanced rates**).

Surprisingly, the majority of annuitants do not exercise their Open Market Option rights, forgoing the possibility of increasing their retirement income. This is due, no doubt, to the complexity of assessing the different rates and contracts available, or through lack of knowledge that this option is available to them.

Compulsory Purchase Annuity

A Compulsory Purchase Annuity is the term used if you have built up funds within a Personal Pension, Self Invested Pension, Group Personal Pension, Stakeholder pension, Section 226, Additional Voluntary Contribution, or Free Standing Voluntary Contribution Scheme. You would generally take 25% as a tax free lump sum to spend as you wish, and purchase an annuity with the remainder. This is where your Open Market Option facility comes into play, and allows you to shop around to get the best deal.

If you have more than one pension fund, you may be able to combine them and receive a bigger annuity, or alternatively if you do not need the income immediately you could buy an annuity with one pension fund, and leave the other(s) till later.

The income return produced by the annuity will depend on:

- The age of the annuitant;
- Current interest rates;
- The degree of capital protection required.
- Life expectancy rates
- The pension options you select
- How often the pension is paid

The income produced by the annuity is treated as Taxable Income and is normally paid with deduction of tax at the basic rate. Once the Annuity has been bought, the gross Annuity payments will not fluctuate with interest rates, and the options and payment terms can not be changed.

I have taken the opportunity to outline the many different types of annuity which can be selected.

<u>Level Payments</u>

The gross income payments from this type of annuity do not change with time. A higher level of initial payments can be obtained from this option when compared with the options show below, however, over the longer term this income loses its real value when taking into account the effects of inflation.

Escalating Payments

By choosing escalating payments the gross income increases at a set rate (for example 3% or 5%), or in line with Retail Price Index (RPI). This could be beneficial to help your income keep up with inflation, however, this initially means a lower regular payment than under a level annuity, but over the longer term you are likely to benefit.

Guaranteed Annuities

To reduce the loss of income on early death and to help provide your dependants/family with continuing income, annuity payments can be guaranteed for a specified number of years (normally 5 or 10 years). The guarantee does come at a cost in terms of a lower level of income, but this will give some protection to your dependants.

Joint (Widow/Widowers) Pension

The annuity can be set up so that a reduced pension is paid on the death of the main annuitant, for example a 50% pension may continue for the life of the surviving spouse. The amount of the widow/widowers pension is selected at outset as a proportion of the main pension (for example one third, one half or even two thirds). The amount of initial income produced by the annuity when this option is selected is reduced depending on the proportion of the pension selected and the age of the spouse/dependant.

Impaired or Enhanced Annuity Rates

IMPAIRED LIVES - get HIGHER annuities from specialist providers. Its FREE and easy to find out if you qualify, just call us.

It is surprising to learn that an estimated 40% of people planning to purchase an annuity would be eligible to receive enhanced annuity rates, but fail to make their personal circumstances known when applying. Ultimately missing out on potential increases which could make a substantial difference to their retirement income.

If you are intending to include joint life benefits, your spouse’s state of health will also be considered. This is why it’s most important that you advise the insurance company of any lifestyle or medical conditions, to ensure they have all the relevant information to quote the best rates.

The calculations used by insurance companies to ascertain the amount of income you will receive from your annuity are based on a number of factors including such things as your age, sex, state of health or whether you smoke.

If any of the following applies to you or your spouse, it may work in your favour:

- Have you been hospitalised in the last ten years
- Are you on any medication
- Do you smoke regularly
- Do you have angina
- Do you have high blood pressure
- Do you have chronic asthma
- Do you have diabetes
- Do you have a serious illness or had major surgery

Some of the leading Insurance Companies offer preferential annuity rates in such cases, as they work on the assumption that they may be paying you for a shorter period of time and therefore will increase your income accordingly. We know which insurance companies offer the best rates in these circumstances, and will obtain the best quotations for you to help make your decision easier.

Investment Linked Annuities

Investment-linked annuities offer the potential of higher income than level or increasing annuities, but are riskier and liable to fluctuations. You must be fully prepared for your income to reflect any changes in the stockmarket, which of course can go down as well as up.

New Forms of Annuity

Limited Period Annuity – this option allows you to use part of your pension fund to buy a fixed-term annuity lasting up to five years. You can then keep the remainder of your pension fund invested, and use part of that to buy another Limited Period Annuity or a lifetime annuity or an income withdrawal at any time.

Value Protected Annuity – with this option, if you die before the age of 75 your dependants will receive a lump sum equal to the cost of your annuity, minus the income that you've already been paid. However, any benefits paid out to your estate will be taxed at 35%. This option is likely to pay out a lower income than a lifetime annuity.

Flexible Pensions

Phased Retirement

Phased retirement can be particularly attractive to those who want to retire gradually, and replace their earned income with pension income. It is generally suited to those with a fairly large fund, or additional income, who do not wish to convert the whole of their fund into an annuity at an early stage of their retirement.

Phased retirement allows you to divide your pension fund into segments, you then choose how many segments you wish to convert into an annuity each year or as required. This gives you greater control and flexibility, as you can leave the rest invested within your fund. Effectively, if you take regular annual withdrawals, for example, the tax free cash element will make part of your income.

If you die before you receive your entire pension fund, your beneficiaries will receive the balance which is not included in Inheritance Tax calculations, making this a useful method of inheritance tax planning.

The HM Revenue and Customs set limits on the yearly drawdown income that can be taken. The upper limits is worked out using tables of income drawdown rates provided by the Government Actuary's Department (GAD). The starting point is to work out the basis amount by multiplying the pension fund by the applicable rate from the GAD table (based on the age, gender and the current gilt yield) The highest yearly income allowed is 120% of the basis amount. The lowest yearly income allowed is nil, there is no need to take any income. Income may be changed each years within these upper and lower limits.

At age 75 there is no longer a compulsion to buy an annuity, instead monies are transferred into an **Alternatively Secured Pension (ASP)** in which different rules apply. The highest yearly income is 90% of the GAD basis amount, and the lowest income is 55%. On death, the remaining fund must first be used to provide a survivors' pension. These pensions can be paid by income drawdown under the drawdown or ASP rules (depending upon the age of the spouse) or can be used to fund an annuity. They will be taxed as income. If there is no surviving partner the remaining drawdown fund can be used to pay:

- Any continuing pensions due under a pension guarantee, or
- Transfer lump sum death benefits to other members of the same scheme pension scheme, or
- A charity lump sum death benefit

The Capital Taxes Office (CTO) have recently clarified that Inheritance Tax would apply to benefits under this plan that are transferred to another member of the policyholder's pension scheme (option 2 above) on the individual's death. Inheritance Tax would not apply on transfer to a charity, a spouse / civil partner or dependent.

Additionally, if a spouse / partner or dependent inherited these benefits on the death of the member, on their subsequent death any remaining funds would be added to the original plan holders' estate to calculate if any additional IHT liability arises.

An Inheritance Tax charge can arise in a scheme member's lifetime under section 3(3) Inheritance Tax Act 1984 if they do not exercise their right to take pension benefits. The charge applies at the latest time when the right could be exercised i.e. immediately before death. For example, if a scheme member did not take their pension when their life expectancy was seriously impaired, and this resulted in an enhanced death benefit being paid to their beneficiaries, then Inheritance Tax could apply.

Income Drawdown

Some pension schemes give you the facility of receiving up to 25% of your fund as tax free cash, and then selecting an income which has minimum payment but is subject to a maximum payment set out by the Inland Revenue, to suit your circumstances. You draw a taxable income direct from the fund without buying an annuity, leaving the bulk of your fund in a tax free environment. The same rules apply to the income drawdown as the phased retirement plan at age 75.

These are complicated and expert independent advice is essential, but worth considering if you have funds in excess of £100,000.

The same income and death rules apply to income drawdown as phased retirement.

The advantages of income draw-down/phased retirement

You can vary the amount of income - After deciding on the level of tax-free cash to take from your pension fund, the balance is invested. From this balance you select an initial income level between 0% and 70% of the amount that would be payable had you taken a single person's annuity. The on-going value of your fund will depend upon the level of income taken and the rate of investment return on the remaining fund.

Getting a higher income - income draw-down allows you to maximise your early income because it is based on the equivalent single life annuity. With a conventional annuity, with extra features, such as surviving spouse benefits, the annuity income would be at a lower value. Your spouse is still protected with draw-down (see 'death benefits' below).

Death benefits - with a standard annuity, payments cease at the death of the annuitant, (unless you have opted for extra benefits that can be bought within these plans such as spouse pension and guarantee periods). If death occurs during income draw-down, the remaining fund is not lost. There are three options available :-

- The remaining fund can be paid as a lump sum (subject to a 35% tax charge),or
- the surviving spouse can continue to use income draw-down, or
- The remaining fund can be used to buy an annuity for the surviving spouse.

Thus income draw-down provides significant benefits that are not available with a conventional annuity.

Possibility of increased income - Your money is still invested in a retirement fund, so, if the investment returns are high, the fund value will benefit. This could therefore generate a higher annuity income, when the fund is finally converted. Annuity rates do also increase with age, due to life expectancy reductions.

Benefit of deferment, if annuity rates are low - When you purchase an annuity, the rate of return on the investment (and therefore your income) is fixed at the date of purchase. By using income draw-down you can defer your annuity purchase to a more favourable time. This could be appropriate if annuity rates were expected to rise in the future.

Age at annuity purchase - the annuity rate increases with the age of the applicant, for a given fund value, due to reduced life expectancy of older people. So a 10 year delay in annuity purchase would increase the annuity value.

Disadvantages of income drawdown/phased retirement

Fund charges - your money remains invested, and the fund-holder will continue to apply charges for fund management. This does not apply to an annuity investment.

Investment risk - if the fund's investment returns fall below a certain level, then the amount of continuing income available under income draw-down will fall. Also when an annuity is finally purchased, the annuity income could be lower.

Lower Annuity Rates - if annuity rates fall, the amount available to calculate draw-down, and any future annuity income would be reduced. This would apply even if the pension fund's investment strategy were relatively successful.

In summary, key issues are :-

- High income withdrawals may not be sustainable during the deferral period, forcing a reduction in income levels.
- Taking income withdrawals may erode the capital value of your fund, especially if poor investment returns are combined with high income levels. This could result in reduced income when the annu ity is eventually purchased.
- Investment returns may be less than those shown in any illustration provided.
- Annuity rates may be at a worse level when purchased than they are now, leading to a reduction in income.

Crystallation Events

Every year, the government should announce a new Lifetime Allowance figure. In the tax year 2008/2009 this is set at £1.65 million.

The pension benefits that you have accrued will be tested against this Lifetime Allowance upon a Benefit Crystallisation Event (BCE). If the total of your pension fund values exceed the Lifetime Allowance at that point, an extra tax charge will be levied of 55% if excess benefits are taken as a lump sum and 25% if you choose to take the excess benefits as pension income.

There are nine types of BCE and the following list provides a summary:-

- On using a money purchase pension plan to set up Unsecured Income
- Becoming entitled to a Scheme Pension
- The payment of a Scheme Pension above the maximum level permitted by law at the date the pension started
- On purchasing a Lifetime Annuity from Money Purchase scheme benefits
- Reaching age 75 with uncrystallised Defined Benefit scheme pension and lump sum
- Reaching age 75 with uncrystallised Money Purchase scheme benefits within an Unsecured In come plan
- Becoming entitled to a lump sum payment
- A lump sum death benefit being paid
- A transfer to a qualifying recognised overseas pension scheme

Schedule C
Tax Bands / Rates

Income tax allowances	2008-09 (£)	2009-2010 (£)
Personal allowance	6,035	6,475
Personal allowance for people aged 65-74	9,030	9,490
Personal allowance for people aged 75 and over	9,180	9,640

Taxable bands 2009-10 (£)	
Basic rate 20%	To 37,400
Higher rate 40%	Over 37,400

Capital Gains Tax: Individuals and Trustees			
Annual exempt amount	2007-08 (£)	2008-09 (£)	2009-10
Individuals etc*	9,200	9,600	10,100

Inheritance tax threshold	
Year	Amount (£)
2009-10	325,000
2008-09	312,000
2007-08	300,000

Stamp Duty Land Tax Rates From 23/03/06

Rate	Land in disadvantaged areas - Residential	Land in disadvantaged areas - Non-residential	All other land in the UK - Residential	All other land in the UK - Non-residential
Zero	£0 - £150,000	£0 - £150,000	£0 - £125,000	£0 - £150,000
1%	Over £150,000 - £250,000	Over £150,000 - £250,000	Over £125,000 - £250,000	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	Over £500,000	Over £500,000	Over £500,000

Schedule D

Asset Allocation

The last ten years has seen a revolution within the investment market given the new products that have emerged and become accessible to the smaller investor. While more choice and extra diversity is good it does make matters more complex. However, as any professional investor will tell you, knowing what is the next 'asset bull' is difficult if not impossible to predict, and luck rather than good judgement can often play an important role in securing out performance. Indeed, ask any professional investor where you should invest your hard earned capital you are likely to get a much varied response.

If you select the right investment asset then you may achieve fantastic growth surpassing all other investment returns. However, if you get it wrong then the losses too could be spectacular as witness by investors in technology stocks only a few years ago.

The prediction game however calculated therefore is very risky. Selecting one particular asset is exposing the private investor to potentially extreme levels of volatility and what I like to term 'trampoline growth' (up and down) which at times may be very profitable while in turn can also be financially disastrous.

While this approach may be fine for professional investors we would not recommend this strategy for private investor who generally do not have the time or expertise to follow and predict market trends, and equally can ill afford to sustain significant capital losses.

Choosing an investment asset can be likened to backing a horse. While conditions might be prime for a particular asset, markets can be unpredictable and can change very quickly. An inexperience pundit (private investor) turns up at the races, and what experienced pundits (professional investors) love is an inexperienced pundit who they can predict with confidence that the going is soft and the conditions are great for number 3. Yet the bookies don't agree he is 20-1! What about number 2, she is 10-1, and number 1 who is 3-1. Throughout the day these so call experienced pundits are happy give advice all of it contradictory to the other experience pundits and bookies. Confused? How do you decide with such conflicting advice? Well here goes, number 1 it is! Having lost your money (along with most of the other experienced pundits) you go onto the next race hoping this time you can back a winner.

Therefore, the 'sensible' (yes I know this is boring) approach for the private investor is to adopt a multi-asset investment exposure to a wide range of investment funds and sectors designed to provide an 'all weather' investment approach and to potentially provide consistent steady returns over the medium to longer term.

It is for this reason we strongly recommend private investors adopt a multi-asset approach to investing, or if you like back all of the horses. While this may mean that you do not back a winner every time and the returns will not be as spectacular, it does mean that you will get more each way returns that will also avoid spectacular losses and the sleepless nights these can cause.

We may achieve exposure to a range of investment assets via establishing a robust and bespoke asset allocation which reflect your own personal lifestyle objectives and thereby establishes the risk parameters of your portfolio.

Asset allocation is an increasingly important contributor to overall risk adjusted portfolio returns. It is probably more important now than it has ever been before. The percentage weightings across various asset classes have always determined the long-term returns of a portfolio and the levels of volatility experienced along the way. Research is continually concluding that market timing and stock selection contribute only a relatively small amount to performance in comparison.

An 'all weather' investment approach may be achieved by holding a diverse range of assets that have negative correlation which in turn reduces the associated risk of investing. For example, large UK Equities have a positive correlation to large US and European Equities. Therefore, a portfolio just consisting of these assets may be geographically diverse, but it is far from asset diverse which is a bad thing. This is a result of the ever increasing globalisation of the corporate world. Instead, bonds and property which have a negative correlation will help to provide for better investment diversification.

Different asset classes display varying levels of correlation. Bonds perform well in low inflationary environments and economic downturns. Commodities perform well in overheating economies and equities well in growing economies. Put simply, asset classes perform differently in different market conditions.

Successful asset allocation involves finding the optimum combination and exposure to complementary investments. However, this is way beyond the private investor who instead will need to seek out multi asset funds that can do this for them.

However, multi asset class strategies should be more than just passive exposure to the broad range of asset classes available. Simply throwing a bit of equities, property and commodities into the mix is not going to be enough in this more sophisticated and demanding marketplace. Dynamic asset allocation is going to be the main driver of portfolio outperformance over the coming years.

But even the most dynamic of asset allocation implementation policies will not capture 100% of the upside in any particular asset class, theme or market. However, the right blend of non-correlated or low correlated assets ensures a smoother ride over the long term.

Schedule E

Investment & Deposit Accounts

DEPOSIT BACKED INVESTMENTS

Deposit funds are essential within every investment portfolio satisfying many requirements ranging from acting as an emergency fund, balancing a portfolio or providing guaranteed returns.

These investments are not guaranteed and cannot therefore be regarded as entirely risk free. However, they can be considered low risk. They are prudently regulated by the Financial Services Authority. This means that their financial resources are monitored and investment into their UK deposit accounts are protected by the Financial Services Compensation Scheme. If a bank or building society goes out of business, the scheme pays the first £2,000 in full and 90% of the next £33,000. This means a maximum compensation of £31,700. If you have more than £33,000 to deposit you might want to consider spreading this over more than one society so that the whole investment is covered by the insurance scheme.

The Emergency Fund

How much you place within an emergency fund is very much dependent upon individual circumstances, however, too much is better than not enough so edging on the side of cautious is always wise.

An emergency fund must have two features, **accessibility** and **competitive returns**. Being able to 'get your hands' on cash quick will provide added peace of mind and is essential within any investment portfolio. This is because an investment portfolio needs to be left alone to work, not be constantly drawn on to fund ad hoc expenditure. An accessible emergency fund will allow for this. Competitive returns are essential to ensure that monies at least keep pace with inflation and avoid real terms depreciation.

The 'popular' home for emergency funds is within internet and/or telephone accounts. These accounts' often pay a more competitive return than traditional bank/building society accounts (even notice accounts) because they do not have to fund the branch or staff costs associated with traditional accounts. Hence, the saving may be passed onto customers. Furthermore, this is a very competitive rate driven market that ensures that returns remain keen.

However, the best rate today may be the worse rate tomorrow. Ensure that you regularly review the competitiveness of your 'rainy day' account as rates constantly change.

A deposit backed investment (cash) many have many different features and benefits.

What are there uses?

- Used by low risk investors seeking to maximise returns from a secure environment.
- Used by non-taxpayers making full use of their ability to derive gross returns on their investments (up to the personal allowance currently £5,035 2006-07).
- Used by basic and higher rate taxpayers taking advantage of the range of tax-free deposit backed investments.
- Used to help balance a portfolio that has monies invested within higher risk assets and invest ments and is designed to add greater diversification.

National Savings

National Savings and Investments is a Government agency offering savings and investment opportunities. They are secure investments as they are guaranteed by the Government. You may open National Savings [products by post, and the majority of them over the counter at post offices.

Premium Bonds

Why choose this product?	If you want an investment which offers the fun and excitement of a chance of a big win.
Who can invest?	Anyone aged 16 or over; can also be bought on behalf of under-16s by par-ents and grand-parents.
Minimum purchase	£100
Maximum holding	£30,000
Investment term	No set term
Prizes	As well as the two £1 million jackpots you can win anything from £50 to £100,000 for each Bond number you hold.
Tax status	Tax-free

Fixed Interest Savings Certificates

Why choose this product?	If you want to earn guaranteed and tax-free returns
Who can invest?	Anyone aged 7 or over; can also be bought on behalf of under 7s
Minimum purchase	£100
Maximum	£15,000 per issue
Investment term	Choice of terms — currently 2 and 5 years
Interest	Rates guaranteed for length of term
Tax status	Tax-free

Index Linked Savings Certificates

Why choose this product?	If you want to make sure your investment will grow ahead of inflation, tax-free
Who can invest?	Anyone aged 7 or over; can also be bought on behalf of under-7s
Minimum purchase	£100
Maximum	£15,000 per issue
Investment term	Choice of terms — currently 3 and 5 years
Interest	Index-linking to Retail Prices Index (RPI) plus guaranteed interest rates for length of term
Tax status	Tax-free

Income Bonds

Why choose this product?	If you want to earn monthly income and have easy access to your money
Who can invest?	Anyone aged 7 or over; can also be bought on behalf of under-7s
Minimum purchase	£500
Maximum	£1 million in total
Investment term	No set term
Interest	Variable, tiered rates
Tax status	Taxable, paid gross

Pensioner Bonds

Why choose this product?	If you are aged 60 or over and want a monthly income at a guaranteed rate
Who can invest?	Anyone aged 60 or over
Minimum purchase	£500
Maximum	£1 million in total
Investment term	Choice of terms — currently 1, 2 and 5 years
Interest	Rates guaranteed for length of term
Tax status	Taxable, paid gross

Fixed Bonds

Why choose this product?	If you want guaranteed rates of interest so you know exactly how much you'll get at the end
Who can invest?	Anyone aged 7 or over; can also be bought on behalf of under 7s
Minimum purchase	£100
Maximum	£1 million in total
Investment term	5 years
Interest rates	Guaranteed rates that rise over five years
Tax status	Taxable, paid gross

Collective investments

ISAs

The Government introduced the 'tax free' Individual Savings Account (ISA) on 6th April 1999 as a replacement for PEPs and TESSAs. An ISA is ideal for those investors looking for a medium to long term investment in a tax efficient environment. The government stated that this investment scheme would be available for at least ten years but this would be reviewed after seven years.
The main benefits of an ISA are as follows:

- No capital gains tax liability;
- Generally very competitive charges;
- You can have access to your investment at any time – usually without penalty.

Please note that the 10% tax credit on dividend income is no longer reclaimable. However, Income Tax deducted at source of 20% from interest on bond investments remains reclaimable in full.

The annual ISA allowance is £7,200. Up to 50% of that allowance can be saved in cash with one provider. The remainder can be invested in stocks and shares with either the same or a different provider.

ISA savers will be able to invest in two separate ISAs each tax-year, namely a Cash ISA and a Stock and Shares ISA.

The concept of "Mini" and "Maxi" ISAs no longer exist. Mini Cash ISAs, TESSA-only ISAs (TOISAs) and the cash component of a Maxi ISA will automatically become cash ISAs. In addition, Mini stocks and shares ISAs and the stocks and shares part of a Maxi ISA will automatically become stocks and shares ISAs.

All Personal Equity Plans (PEPs) will automatically become stocks and shares ISAs although these may still be segregated on investment companies reporting systems.

Whilst ISA savers will be able to transfer money saved in their cash ISA to their stocks and shares ISAs, they will not be able to transfer from their stocks and shares ISA to their cash ISA.

Under current rules, an ISA manager must deduct a flat rate 20% charge and pay it to HM Revenue & Customs in respect of any interest received within a Maxi stocks and shares ISA relating to un-invested cash. This rule has always applied to stocks and shares ISAs and from April 2008 will apply to interest earned on un-invested cash formerly held in PEPs.

Anyone over the age of 18 and resident in the UK is eligible to invest in a Stocks and Shares ISA. Investors aged 16 or 17 may only invest in a Cash ISA, and there are special tax rules if the capital for this came from a parent. There is a current subscription limit for Maxi Stocks and Shares ISA of £7,000.

Key Points

- Cash cannot be held long term in the stocks and shares component of ISA. If this is attempted the manager must refund the cash to the investor, and in the interim 20% tax will be charged on any interest;
- You do not need to supply details on your self assessment tax return of interest, dividends or capi tal gains;
- Any interest from cash within a stock and shares ISA will be taxed at 20%;
- ISAs cease on death.

Withdrawals may be made from the ISA at any time. However, investors will not be able to replace the money withdrawn if they have previously utilised that tax years allowance or have invested with another manager that year.

Typical investments used within an ISA may include OEICs, unit and investment trusts (subject to certain criteria), authorised securities and direct investment in shares of companies, anywhere in the world, quoted on a recognised stock exchange. Because of the nature of the underlying assets, the ISA is intended as a medium to long term investment.

Where OEICs or unit trusts are utilised, these funds may invest in a range of investment types such as equities (UK and overseas), government issued fixed interest securities and corporate bonds. In addition, investment into other OEIC, unit and investment trust funds may also be made.

Where a fund invests in overseas equities or other assets, the investor is exposed to an additional currency risk. Henwood Court takes this into account when deciding on the risk rating of a fund.

When you subscribe to an OEIC, unit trust or investment trust the fund manager makes the investment decisions on your behalf. For the investor, this offers the following advantages:

- Investment decisions are delegated to an expert fund manager;
- You have access to a wide range of investments; Diversification reduces the risk of investment in stocks and shares;
- Simple administration.

CAT Standards

The Voluntary CAT Standards are 3 key criteria that the Government wants to apply to certain ISA products to make them more transparent and to ensure that investors get a fair deal. The criteria refers to **C**harges, **A**ccess to funds, and **T**erms controlling how the ISA will work.

The government has made clear however that the CAT standards do not guarantee the performance of an ISA, nor do the CAT standards ensure that an ISA will be suitable for every saver. The government states "The only way to be confident that an ISA will suit a particular saver is to assess the saver's personal circumstances, including their attitude to risk, perhaps with the help of an adviser." The Treasury also states: "CAT standards should not imply in any way: …..that CAT standard ISAs are in some way Government approved". From Henwood Court's point view there are no qualitative standards which make this "CAT-marking" of little value .The following individual savings accounts are not CAT-marked.

Unit Trusts

A unit trust is an investment vehicle, allowing individuals to invest in shares and fixed interest stocks quoted on most recognised stock markets around the world. Using a unit trust fund, investors pool their money so they can obtain a spread of risk and professional management. There are many different types of unit trust available each with specific investment objectives for the fund.

Unit trusts have distinct advantages, for many private investors, over direct holdings of equities:

- **Investment Management** - unless you have the time or sources of information, both of which are necessary to manage a share portfolio actively and effectively, you are unlikely to obtain the best results from your investment capital. This is especially important in a small portfolio where one bad selection can have a serious effect on the overall performance. Unit trusts are actively managed and offer a large degree of diversification by their spread of investment.
- **Simplicity** - owning individual shares creates considerable paperwork and detailed records need to be kept to keep track of rights and scrip issues, mergers etc. With a unit trust, this is dealt with by the fund manager.
- **Capital Gains Tax Advantages** – Authorised unit trusts are exempt from capital gains tax on dealings within the fund.

Tax Treatment

Capital Gains Tax
Investors may be liable to capital gains tax on profits made on disposal of holdings if the total gain (together with other gains made in the tax year) is greater than the annual exemption limit. Any liability may be reduced by indexation allowance and/or taper relief.

Currently there is an annual exemption of £9,200 for 2007/08 tax year. Chargeable gains in excess of this amount are taxed at either 10%, 20% or 40% depending upon the individual's income tax position.

Income Tax
In effect there are three main types of unit trust for income tax purposes. Those investing mainly in equities; those investing mainly in interest bearing assets and those investing in property. The tax treatment of these different types of unit trust will depend upon the underlying investments and the tax rates of the unit holder.

Equity Unit Trusts
As from 6th April 1999 the rate of tax credit associated with dividend income will be 10%. The 10% tax credit can not be reclaimed by non taxpayers. Lower or basic rate taxpayers have no further liability to tax however higher rate taxpayers will have additional tax to pay.

Interest Bearing Unit Trusts
Provided the Trust invests at least 60% of its assets in qualifying interest bearing investments, tax is deducted at source at a rate of 20%. Income is paid to the unit holder with a 20% tax credit. This can be reclaimed by non taxpayers. Lower or basic rate tax payers will have no further liability to tax however higher rate tax payers will have an additional liability.

Property Trusts
Rental income will be chargeable at 20% in the hands of the trust. The trustees then distribute income with a 10% tax credit. The tax treatment of the holder is similar to that of the holder of equity based funds.
In order to overcome the problem of managing a portfolio of individual unit trusts the concept of either a Portfolio fund or an independent/fettered fund of funds has been developed.

Please note that the value of the fund is based on the valuer's opinion rather than fact and in extreme market conditions the provider may delay payments linked to the property fund.

Investment Funds by using their investment expertise and vast research engines have a proven history of better performance in comparison to both deposit backed investments and investment bond contracts as detailed within the table below. Of course, past performance is no guide to the future. This is largely down to their better research capacity and dynamic fund management.

Furthermore, in comparison with other investment vehicles (such as investment bonds), unit trusts offer cost effective access to a wide range of funds, within a potentially more beneficial tax regime particularly if you use your Capital Gains Tax allowance each year.

Investment Type/ Sector*	UK All Companies	Global Equities	Sterling Fixed Interest	Property
Investment Funds	£1,911	£1,577	£1,752	£3,031
Investment Bonds	£1,622	£1,320	£1,655	£2,399

*Sector returns of a £1,000 invested over ten years (1st Aug 1997 – 1st Aug 2007).

In comparison, a £1,000 within a UK Savings £2,500+ account would be worth £1,198.20.

All Sources: Money Management September 2007.

Offshore Investment Bond

An Offshore Bond is a simple way to invest a lump sum and is designed to achieve long term capital growth. It is written as a single contribution life assurance policy with the added feature of providing either regular or one off cash sums. The main advantages of this type of investment can be summarised as follows:

- Simplicity of investment and subsequent operation.
- Wide investment spread and active management.
- Deferred tax liability allowing the investment to benefit from 'gross roll-up' and better compound growth returns.

This type of investment offers growth potential over the medium to longer term and allows access to a range of investment media including UK and overseas equities, cash and fixed interest security. Managed funds allow you to benefit from the skills of the fund managers who will choose both the underlying investment type and geographical allocation.
This type of investment also allows flexibility in that:

- The life assurance company provides expert investment management with simplified administration and taxation. If you limit withdrawals to 5% per annum for 20 years, currently you do not have to report them on your tax return. If no tax is due, there will be no requirements to report encashments.
- If the bond is taken out on a joint life last survivor basis then withdrawals can be continued after the first death. This will allow the survivor's income to remain unaffected.
- As this is a longer term investment, we would point out that care should be taken when making encashment, or taking withdrawals in excess of the 5% limit as detailed below if you are in receipt of age allowance (from age 65).
- A wide range of funds to switch funds to should you investment objectives alter in the future.

Taxation of investment funds

Investment funds are able to grow free of tax, with the exception of irrecoverable withholding tax, which will be deducted from dividends and interest received by the fund. Withholding tax is the tax deducted before the dividend or interest is paid.

Taxation of proceeds

The tax on the investment growth can be deferred until you choose to take the proceeds, and the amount payable will depend upon your tax status and country of residence.

Status	Offshore investment bond
Non tax payer	Income tax is payable on the chargeable gain at applicable rate(s) only if the gain takes the investor into or beyond the starting rate tax band.
Starting rate tax payer	Income tax is payable on the chargeable gain at rate(s) applicable to the investor.
Basic rate tax payer	Income tax is payable on the chargeable gain at rate(s) applicable to the investor.
Higher rate tax payer	Chargeable gain taxed at higher rate.

Residency

	Offshore investment bond
Investors who become resident outside the UK	Underlying investments can grow in a tax efficient environment throughout the time held. The only tax to which our funds will be liable is a withholding tax that is deducted from dividend income and interest. On realising the investment, any potential tax charge is dependent on your country of residence.
Investors who return to the UK after living abroad	Time apportionment relief may reduce tax liability on any gains, e.g. if an investor lived outside the UK for 5 years of a 10 year investment, only half the gain is taxable.

Tax returns

Investment bonds are non-income producing assets for UK tax purposes. Details of the bond do not have to be included until a chargeable event is triggered, and at such time the relevant details must be included in boxes 6.6 - 6.8 of the Foreign Pages supplement to the Self Assessment return.

Further details of the tax treatment of bonds are referred to in the attached product documentation.

Important Notes

The level of income arising on the underlying assets of the unit linked managed bond increases the value the accumulation units held. If you are taking regular withdrawals, units are encashed to make these payments, and these units consist of both the income and capital. Henwood Court normally recommends that initially regular withdrawals of no more than 4% of the original investment should be set up, which is consistent with protecting the capital base in an economic environment of low inflation and steady growth.
A more conservative option would be to set the initial income at 3.5% or lower, which would give more potential for capital growth and future rises in 'income'. In any event, it is wise to review the effect of withdrawals on your investment bond, say, every three years. Should you level of withdrawal exceed the growth then this will result in capital erosion.

The levels and bases of, and reliefs from, taxation are subject to change and the tax reliefs referred to above are those currently applying. These are of course subject to change.
Their value depends on your individual circumstances.

Please note the following should any of your investment have exposure to property assets.

(a) the value of the fund is based on the valuers opinion rather than fact
(b) In extreme market conditions the provider may delay the payments linked
to the property fund

This schedule should be read in conjunction with your personal illustration.

The illustration uses certain assumed rates of growth, as prescribed by the Financial Services Authority. These rates are not guaranteed and it would be prudent to review your contract on an ongoing basis. I should be happy to advise you in the future, should you require this. The advice provided to you is based upon the information you have disclosed and therefore, if this letter does not accord with your view of the situation or you require any further clarification please contact me immediately.

Your capital should be invested with the following provider(s).

Schedule F

The Importance of writing a Will

What is a Will?

A Will is just that, a written expression of your will, your wishes and your requirements. It is a legally binding statement of how you wish your assets to be dealt with after you have died.

It is important to keep your will up-to-date because your circumstances change, legacies made in a previous Will may have been impacted by inflation, you may even have arranged to make a gift to someone who has died or your Will may refer to an executor, the person charged with making sure your Will is carried out, who may have died.

You may change an existing Will in two ways, by replacing it with a completely new Will or by adding a Codicil this bit of legal jargon is merely a way of adding new clauses to your existing Will.
After your death, the legal process to establish the validity of your Will is known as probate. If probate is not granted then an administrator is appointed by law to settle your affairs as if you had died without a Will.

What is my estate?

Before you sit down to draw up a Will it is worth spending some time thinking about your estate. This may sound grand but it is simply the legal term that describes your net worth, i.e. it is the total value of everything you own at your death, less any outstanding commitments. Basic estate planning is straightforward and will help you plan what you wish to include in your Wills.

It will also give you some idea of what kind of Inheritance Tax liability your estate may face. Finding this out will give you the opportunity to plan the terms of your Will so that you may take appropriate steps to make sure that your assets go to your nearest and dearest and the taxman gets as little as possible!

You should start by adding up the value of your assets and liabilities, which may include the following:

Assets

1. Your home - sole ownership or jointly owned?
2. Bank and Building Society accounts
3. National Savings investments
4. Life Assurance policies
5. Pension Fund and Union Benefits on death
6. Stocks and shares (including ISAs)
7. Unit Trust investment (including ISAs)
8. Premium Savings Bonds
9. Furniture
10. Interest in other people's estates
11. Property & bank accounts abroad

Any assets which are jointly owned with someone else (a spouse or partner) are usually assumed to be held in joint tenancy. This means that any share held by one automatically passes to the other on death, regardless of any provisions to the contrary in a will. With regard to your property, if this is not what you want to happen then you must make sure that your home is held as a tenancy in common.

Liabilities
1. Mortgage
2. Credit card debts
3. Overdraft facilities
4. Outstanding Loans

Subtract the value of your liabilities from your assets and you'll have a relatively clear idea of what you are worth now. It is likely to be more than you think! Bear in mind also that, other things being equal, what you are worth when you die is likely to be an even larger figure!

Why should I make a Will?

There are several good reasons why you should make a Will. First of all, you get to decide who you leave your property, money and other assets to. Without a will, the Government steps in and divides everything according to strict rules - which could mean family, friends or charities you wanted to benefit would miss out altogether.

Among other reasons you should make a Will, your partner may benefit. If you aren't married to your partner, he/she could end up with nothing if you die without a Will. Even though the Civil Partnership Act has come into force it still makes sense to make a Will.

A Will also means that you may choose your children's guardian. Your children's future can be protected if you choose a legal guardian to be responsible for their upbringing in the event of your death. Of course you need to get the person's permission before nominating them. If you don't specify anyone, it will be left to surviving relatives to sort out who looks after them, and it may end up being someone you would not have chosen yourself.

What happens if I don't make a Will?

No one likes to think about their own death. But making a Will ensures your family won't have to spend months trying to sort out a complicated financial and legal situation after you die. Do you really want them to have the added stress? It seems many of us do according to the Law Society 2 in 3 of us die without having made a Will.

Die without a Will and you die intestate. If this happens, the law of intestacy, which is laid out in the Administration of Estates Act, dictates how your estate will be passed on. It aims, in the first instance, to protect your immediate family any spouse and children. However, bear in mind that unmarried partners and children that are not legally recognised as yours will not be taken into account under the intestacy rules. Quite simply, dying without a Will might not result in your possessions (your estate) being used as you had expected or would have wished.

The intestacy rules assume that all your possessions could be sold by your personal representative to convert your whole estate into cash, which would then be distributed. In practice, most of your assets are likely to be passed on intact according to certain rules.

Your spouse is entitled to all your personal chattels (i.e. personal possessions, such as clothes, furniture, your car etc.). If your estate is valued at £ 125,000 or less, the remaining spouse also inherits the whole estate irrespective of whether there are any children.

If there are children, the surviving spouse is entitled to £125,000 and the household contents and personal effects of the deceased. The rest of the estate is then divided up into two equal parts. One of which will go to the children. The other half goes into a trust. The income from this legal entity will go to the surviving spouse, but the asset will on the death of the surviving partner become entirely the possession of the children.

There are further strict intestacy rules about what happens to your estate if there are no children or if you are single. If you're single with no dependants, your assets go to your nearest surviving living relative. However, if you have no relatives, your estate passes to the Crown (i.e. the government). Do you really want that?

How do I go about making a Will?

A badly prepared Will - or one that is out of date - is often worse than no Will at all. A poorly worded Will or a Will that does not make adequate provision for unforeseen circumstances can cause endless problems and may ultimately be much more expensive and time consuming to sort out. It is up to you, therefore, to make sure you get it right! Having issued that warning, making a Will is fairly straightforward. You could:

1. do it yourself
2. use the services of a will writing company
3. go to a solicitor

A Will makes sure that your estate, after any taxes and debts have been paid, is passed on as you want. You may need legal advice if you want your share of any jointly-owned assets to be inherited by someone who is not the other joint owner.

According to the Law Society, a fairly straightforward will to administer a fairly straightforward estate should cost well below £200 to draw up. It may be advisable to use a solicitor because of the potential pitfalls if a will is not drawn up properly.

When framing the document, you need to have a clear idea of who you'd like to receive what' on your death. You need to bear in mind that the people whom you may want to be beneficiaries, might actually die before you.

If you have small children, it is also a good idea to make it clear in the Will exactly who you would want as guardians were you and your partner both to die together. A fair amount of lateral thinking is required in drawing up an effective Will - you need to be able to take into account all sorts of otherwise unforeseeable events.

Make sure you avoid some of the common Will mistakes such as:

1. leaving money to charities that don't exist actually like 'Cancer Relief' or 'Dr Barbados'
2. not distinguishing family members in the will with the same name
3. not putting the signature in the right place or not all witnesses being present at the same time
4. not taking into account any debts owed

Once the Will has been drafted to your satisfaction, in England and Wales your signature needs to be witnessed by two people who are not beneficiaries. In Scotland only one witness is required but, again, the witness may not be a beneficiary. Although they may not be beneficiaries, you may choose a witness as an executor.

Who should I appoint as an executor?

You are able to choose the people who are responsible for passing on your estate. The legal term for these people is executors. You appoint executors by naming them in your Will.

An executor is the person you leave charge of your estate, to wind it up, pay the taxman (if necessary) and then distribute the balance according to your wishes. This balance is called the residue and is paid out to the beneficiaries, the people nominated in your Will. Being an executor does not stop someone from being a beneficiary in your Will as well.

Most people choose to nominate a solicitor as well as a personal executor when they write a Will. This enables the burden of the work to be shared with a professional who can advise. It also ensures that, if the personal executor is unable to carry out their duties for any reason, there is someone who can carry out the necessary tasks. A solicitor will charge for their advice and work and their fees will be paid out of your Estate.

If you fail to appoint an executor, the High Court will issue a grant of probate and appoint one (generally a bank or solicitor) to act on your behalf.

Can young children inherit?

Children cannot inherit until they reach the age of 18; below this age, any funds of which they are the beneficiaries must be held in Trust.

However, you may feel that 18 is still too young for your children to inherit a large sum of money. If this is the case then, in your Will, you may specify that they do not receive the capital sum until a later age. Your children will be entitled to receive any income from the trust fund as soon as they reach 18. Apart from this, it is up to the Trustees to decide what income and/or capital may be used for the benefit of the children e.g. to pay school fees.

Who should I appoint as a guardian?

If you have children under age 18, you need to think about who will look after them. You do not have to nominate a guardian in your Will but without nominated guardians, the courts will decide who will look after your children. The law also sets out certain requirements where the parents are unmarried or have divorced or separated.

Assuming that either parent has the power to appoint a guardian or guardians on their death, it is usual for such appointments to take effect on the death of the second parent. Usually, especially with very young children, family members may be appointed. With older children, you may prefer to appoint a friend.

It is best to limit the maximum number of guardians to two, ideally partners, rather than end up with a committee of guardians. What you want for your children is that they part of a stable environment at what is surely going to be the most difficult time of their lives.

The duties of a guardian are essentially the same as those of a parent although it is quite normal for the financial management of your legacies to your children to be separately run by trustees. In your Will, where your children are under 18 and are to benefit from your estate, you should nominate them as the beneficiaries. The money will be held in trust for them and your nominated guardians may apply to the trustees for any expenses they incur.

What happens if I get married or divorced?

The act of getting married, whether for the first time or on subsequent occasions, automatically revokes any previous Will in England, Wales and Northern Ireland. On the other hand, getting divorced does not off itself cancel a Will although a gift to a divorced spouse lapses, unless a contrary intention appears in the Will.

It makes sense for married couples each to have a Will, even if the terms and conditions are more or less exactly the same. Both of you need to make a Will, two similar Wills are called 'mirror Wills'.

My partner and I are not married, how is the law different?

The law on intestacy does not currently recognise partners outside marriage. It is even more important, therefore, that unmarried partners do make Wills. The law also does not currently recognise same-sex couples.

However, the Civil Partnership Act gives same-sex couples the right to gain legal status for their relationships through forming a civil partnership. This will formally allow same-sex couples to be entitled to bring claims under the Inheritance (Provision for Family and Dependants) Act 1975. They will apply equally to same-sex and opposite sex couples.

Intestacy provisions are also amended so that if a partner dies intestate the same sex partner, providing there is a formal civil partnership, will be treated in the same way as a surviving spouse.

Where should I keep my will?

In a safe place! But don't forget to tell people that you have made a Will and where you have put it. In practice it makes sense for your executors to have copies of your Will and you may well want a copy on hand as a reference for your own purposes remember that you should keep your Will up-to-date to reflect your changing circumstances and, perhaps, your changing desires as regards legacies.

Schedule G

Will Trust

The use of a Will Trust

Under independent taxation, UK domiciled married people each qualify for their own nil rate band for inheritance Tax (£285,000 from 6th April 2006). However, many couples do not take advantage of both nil rate bands because they do not wish to prejudice their financial security during their joint lives or, the security of the survivor after the death of the first to die.

It is possible, however, to use the nil rate band on first death (rather than passing the entire estate to the spouse) by setting up a suitability worded will trust which allows:-

1. each spouse to retain complete control over their assets while living,

2. the nil rate band used on first death, thus saving up to £114,000 for 2006/07

3. the Trustees to accept an IOU from the survivor in place of real assets. If the Trustees take this option, the surviving spouse can then enjoy all of the assets of the first to die. Also the capital gains tax exemption still applies to the total value of the principle residence if included.

The arrangement can be set up at a little cost by simply making a will or making amendments to existing wills. The will trust will only come into effect on death so it does not create any rights over property while you are living.

The trust would normally include a wide class of potential beneficiaries including your children and any grandchildren, if and when they are born.

The trust should not be written specifying any particular assets, but rather describe the trust as the amount of the current nil rate band for IHT, minus any transfers previously made becoming chargeable.

The trustees might then, although it cannot be predetermined, accept an IOU from the survivor. It is generally advantageous that any IOU is interest free and it must be repayable on demand. If the trustees (of whom your spouse or you in your spouse's will trust can be a trustee, but should not be the only trustee) choose this route, minimal trust administration will be required because the IOU will not produce income or capital gains, and your spouse (or you, if you spouse predeceased you) would enjoy unrestricted access to all of joint assets.

It is essential that the trustees of the trust always act and are seen to act in a responsible, independent and fair way. Your solicitor will be able to advise you in this respect.

On the death of the survivor, the IOU could be called in, forming a debt on the estate of the survivor which would be deducted before IHT was calculated.

The disadvantage is that any gain in value of the assets, subject to the trust and exchanged for the IOU, will be in the survivor's estate. The interest free IOU does not increase in value. The Trustees also have the power to call in the loan at any time.

The above represents our understanding of current legislation which may be subject to change. You will appreciate that regular reviews are necessary to ensure any changes in legislation are taken into account. You should seek clarification from your solicitor on all implications of this type of will planning.

Schedule H

Inheritance Tax

Inheritance Tax – A General Description

Inheritance tax (IHT) is payable on the total assets held (or deemed to be held) at the time of a person's death. The first £325,000 (tax year 2009/10) passing at that time will not give rise to a tax liability but when the total exceeds this figure there will be a liability to tax on the excess at the rate of 40%.

In the case of married couples their effective nil rate band entitlement is £650,000 following second death (as at 2009/10).

In respect of absolute lifetime gifts no IHT liability arises at the time the gift is made, and it will escape the tax altogether provided that the donor survives for seven years from the date of the gift.

Gifts made in the seven years prior to death are added together if the total amount does not exceed £325,000 no tax is payable. The only effect of making gifts totalling less than £325,000 is to reduce the nil rate band available to the donor against the rest of his or her estate. The amount of the reduction is the total amount of gifts made.

In the event of death within seven years, the value of the gift comes into account in assessing the amount of the nil rate band available against the estate. In simple terms, the gift (up to the value of the nil rate band) is deducted from the nil rate applying at the date of death. The balance, if any, is deducted from the estate, which is then taxed at 40%. If the gift was large enough to incur tax on death within seven years (because it was in excess of the nil rate band), then tax due reduces by 20% for each year survived after the third year.

Any gift made with reservation, that is where the donor or settlor retains any interest whatsoever in the gifted property, will be treated as part of the donor's estate on death and is subject to IHT based on the full value of that property at the date of death.

Inheritance Tax Exemptions

By using the exemptions outlined below it is possible, over a period of time to remove a substantial proportion of your estate from the Inheritance Tax net often at little or no cost.

The Annual Allowance

Each individual may gift capital of up to £3,000 per annum. Transfers made within this limit in any one year (April 6th to April 5th) are wholly free of inheritance tax.

If the allowance has not been used in the preceding year it can be carried forward to the present year provided the donor has used the present year's allowance first. If no previous exemptions have been used, you can immediately transfer £6,000 completely free of inheritance tax.

Normal Expenditure out of Income

Individuals may also gift surplus income. The rules provide that a gift is exempt if:

1. It was made as part of the normal expenditure of the donor and;
2. Taking one year with another it was made out of his or her taxed income and;
3. After allowing for all gifts forming part of the normal expenditure the donor is left with sufficient income to maintain his or her usual standard of living.

This exemption most frequently arises in connection with payment of premiums to maintain an insurance policy written in trust for someone other than the premium payer. It is not however limited to this purpose and can be used, each year, simply to distribute excess income to beneficiaries.

Small Gifts Exemption

Each year a person is able to make gifts of up to £250 outright to any number of individuals. Provided these do not exceed the £250 limit they will be completely free if inheritance tax. The exemption is not available for gifts into trust.

Gifts in contemplation of marriage

At present, the rules allow a gift to be made by a parent in anticipation of marriage, in which case it will be exempt from inheritance tax. The gift by parents is limited to £5,000. For grandparents it is £2,500 and £1,000 for other persons.

Gifts for Maintenance of the Family

Lifetime gifts made to maintain a spouse, child or dependent relative would generally be exempt, provided where ir is a child the gift is for the maintenance, education or training of that child up to the age of 18, or until the completion of full time education. Where the gift is for a dependent relative (that is a person unable to maintain him or herself because of old age or infirmity), it must be reasonable for the provision of care or maintenance.

Gifts to Charities and other bodies

Gifts made to UK charities are wholly exempt from inheritance tax whether made during lifetime or at death. This is also true of gifts to certain political parties, national museums, universities, the national trust and other approved bodies. There are exemptions for gifts of national heritage property provided approval is given by the board of the Inland Revenue. The exemption applies to land and buildings of scenic, historical or scientific interest as well as works of art.

Schedule I

Equity Release Schemes

Lifetime mortgages

With this type of scheme you **borrow** money from a bank, building society or other lender, and give this lender a mortgage over your home.

• Rolled-up interest loans
With a rolled-up interest loan (sometimes just called a roll-up loan) you take out a loan against the value of your home. You do not pay off any interest or capital until your property is sold. The interest builds up year after year and is added to the amount that you borrowed, and is paid off when your home is eventually sold.

A rolled-up interest loan should usually be based on a fixed interest rate rather than a variable one. This protects against any interest rate increases in the future.

With these schemes you still own your home, you do not have to prove any income to quality (unlike a mortgage), you may spend or invest the money you raise in any way you wish, and if you do not borrow the maximum amount, you can apply for a further advance at a future date. Furthermore, the property cannot be repossessed even if the total amount of the loan ever exceeds the value of the properties open market value, as long as you have continued to maintain it.

It is therefore important to look for a scheme which guarantees that you can never owe more than the value of your property. This is often called a 'no negative equity' guarantee. Any guarantee of this type needs to be checked out very carefully.

You can live in the property until the death of the surviving borrower, or until the surviving borrower moves into long term care, unless of course you want to move earlier.

After your loan has been repaid, you'll be able to leave to your beneficiaries any equity remaining in your property.

You can pay off your loan at any time you wish (although in some circumstances you may have to pay fees or penalties)

However, this type of loan can be risky, as the amount you owe can mount up very rapidly. It can be dangerous - if the loan runs for a long time your loan plus interest could grow to asubstantial amount and you could end up owing more than your home is worth (unless you have a 'no negative equity guarantee').

For example, if you borrowed £30,000 and interest was charged at a fixed rate of say 7½ % per annum, after 10 years you would owe £61,830, after 15 years £88,766, and after 20 years £127,435

• Interest-only loans
With an interest-only loan, a bank or building society lends you an amount of money against the value of your home, giving you a lump sum. You then make monthly interest repayments, but don't have to pay back any of the capital until the house is sold.

Not all banks and building societies offer interest-only loans; you may have to shop around.

You must have sufficient income to pay the monthly interest payments and this income must continue for the life of the loan.

Interest rates can vary, so you should allow for possible future increases in interest payments.

• Home income plans
A home income plan is when you buy an annuity using money raised through taking out a mortgage against your home. This provides you with an income for the rest of your life.

Home income plans became less popular with the withdrawal of special MIRAS (mortgage interest relief at source) tax relief in March 1999. This change in the system means people now taking out a home income plan receive less income than those who took out the plan before March 1999. (People who took out home income plans before March 1999 still get this tax relief.)

The withdrawal of MIRAS, together with lower annuity rates at the moment, means there are now fewer providers of home income plans.

Home income plans tend to be more suitable for older people (for example those over the age of 80) who will receive a higher annuity due to their shorter life expectancy.

With a home income plan you still own your home, but take out a mortgage against it - usually up to a maximum of 75 per cent of the value. The money raised is used to buy an annuity, which then pays out a regular monthly income. Interest payments on the loan are deducted from your annuity payments before you receive them. When you (or the surviving partner of a couple) die, the house will be sold and the amount you borrowed will be repaid. Anything left over will go into your estate.

Some home income plans also offer the option of receiving a cash lump sum in the early stages, although this will reduce the monthly income you receive.

It is recommended that you only take out a home income plan which offers a fixed mortgage interest rate. With a varying interest rate your monthly income will go down when interest rates are high. This is because interest is taken away from your income before you receive it.

• Home Improvement Trust
If you want to release some of the value of your home so that you can pay for repairs, improvements or adaptations to your home, a ‘not for profit’ organisation called the Home Improvement Trust may be able to help you.

The Trust has set up a scheme called ‘Houseproud’ which helps older home owners repair, improve or adapt their homes so they can live there safely and independently.

‘Houseproud’ aims to make equity release schemes more accessible to older people. It has links with a number of lenders - all regulated banks and building societies - which provide low-cost loans to older people, secured against the value of the home. The Home Improvement Trust acts as an impartial ‘go-between’ and arranges property valuation, as well as liaising with the bank or building society on your behalf.

A number of different equity release schemes are available through ‘**Houseproud**’, but all the banks and building societies involved provide a written guarantee of no repossession, while the original borrower remains in the house.

The trust works closely with local home improvement agencies (HIAs) in England, Wales and Scotland. HIAs provide older people with help and advice on repairs, improvements and adaptations, and are often known as Care and Repair or Staying Put schemes. As well as providing advice and information, these agencies will organise and supervise the work being done, and can offer more guidance on your financial situation.

For an information pack and video about the Houseproud scheme, contact:

The Home Improvement Trust
7 Mansfield Road
Nottingham
NG1 3FB
Freephone helpline: 0800 783 7569

• **Reversion schemes**

With this type of scheme you sell all or a proportion of your home to an investment company. While you no longer fully own your home, you continue to live there as a tenant for the rest of your life. You will live in your home rent-free, or you may have to pay a nominal rent, perhaps £1 a month. If a scheme is purchased jointly, both partners have the right to live in the house for the rest of their lives, even if one partner should die.

You can choose to receive a tax-free cash lump sum, or a monthly annuity income, or both. When you take out a reversion scheme you will not receive the full 'market value' of the property, but a percentage of it according to your age and sex. The older you are the more you will get, and men will get more than women because of their lower life expectancies. This is a major disadvantage of this scheme as you'll be selling your property for less than the amount you would receive if you were to move out and sell it unoccupied. This means the amount you'll be able to leave to your beneficiaries will be reduced on death.

When the property is sold on your death, the investment company receives a share of the proceeds, in proportion to the amount of the property you sold to them. If you sold them the whole property they will get all of the proceeds, or if you sold them a 75 per cent share of your home they will receive 75 per cent of money resulting from the sale.

If you still own a proportion of your property you may sell your home at a later date.
On the death of the last survivor it allows you to leave to your beneficiaries the value of any part of your property that you've not sold, any money you've received from the plan that's in your bank or building society or that you've invested, and any outstanding monthly payments that are still due to you.

An advantage of the reversion scheme is that you can release a higher amount than would be possible under a conventional lifetime mortgage plan. However, if you release too much, you won't be able to repay the loan later with a conventional equity release plan.

Finally, if you elect to arrange an equity release plan, you may lose any means-tested State Benefits that you're entitled to, such as Council Tax Benefit or Income Support. Therefore, prior to entering into an equity release arrangement please check these issues with the appropriate authorities.

THE COMMENTS IN THIS BOOKLET ARE BASED ON OUR CURRENT UNDERSTANDING OF UK LAW HM REVENUE AND CUSTOMS PRACTICE. INDIVIDUAL ADVICE IS ESSENTIAL IN ALL CASES. THE INVESTMENTS REFERRED TO IN THIS BROCHURE ARE INTENDED AS A MEDIUM TO LONG TERM INVESTMENTS BECAUSE THEY, AND ANY INCOME ARISING, MAY GO DOWN IN VALUE AS WELL AS UP, YOU MAY NOT GET BACK THE FULL AMOUNT INVESTED, PARTICULARLY IF YOU WITHDRAW IN THE EARLY YEARS. LEVELS AND BASES OF RELIEF FROM TAXATION ARE SUBJECT TO CHANGE. TAX RATES AND RELIEFS REFERRED TO ARE THOSE CURRENTLY APPLYING AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE:

WRITTEN QUOTATIONS AVAILABLE ON REQUEST
THE FINANCIAL SERVICES AUTHORITY DOES NOT REGULATE SOME FORMS OF DEBT CONSOLIDATION OR INHERITANCE TAX PLANNING.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME.

For further information please call 0845 0551970 or go to www.henwoodcourt.com

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