



# BIRCH

FINANCIAL SOLUTIONS

# SMART MONEY

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## Is it time to get more flexible with your money?

Remove the cap on the retirement income you can take

## Are you saving enough now to live well in years to come?

The closer you get to retirement the greater the need to talk to us

## Picking the right balance of assets for your portfolio

Keeping track of lots of individual assets can be a daunting task

## 'Will' your loved ones get your inheritance?

Make sure you avoid unnecessary legal complications and emotional hardship

**THE IMPACT OF BUDGET 2012 ON YOUR FINANCIAL PLANNING**  
How do the changes affect your pocket?

**AUTOMATIC PENSION ENROLMENT**  
Latest delay scarcely made the news

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## Editorial

**P**ension legislation is always on the move and keeping up to date with the latest changes could open up new opportunities for you in retirement. In April 2011, some of the most significant changes in pension legislation for five years were announced. On page 05 we discuss the main areas to consider when planning for the future so you can achieve your retirement needs more successfully.

Picking the right balance of assets for your portfolio depends upon your own risk profile. One way to protect your portfolio is to spread your risk by diversifying across several different types of investment funds and classes of securities and localities in order to distribute and control risk. Read the full article on page 07.

In a low gilt yield environment, having flexibility within a pension arrangement can make a big difference. On page 09 we look at options that include either delaying taking pension benefits until the situation improves, or phasing money into drawdown, to benefit from any potential upturn.

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

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# Are you saving enough now to live well in years to come?

## The closer you get to retirement the greater the need to talk to us

Retirement is something we all look forward to and, even if it seems a long way off, the crucial question is 'Do you have enough saved for a comfortable retirement?'

Whatever the answer, it's not too late to boost your retirement savings. The closer you get to retiring the greater the need to preserve your savings and ensure they will last all through your retirement.

We can help you assess whether you need to make changes to your investments as you approach retirement.

Investing in non-pension savings will enable you to use these to supplement your pension income – and still access your money if you need to.

Having the right mix of investments will help your savings outpace inflation.

If you are approaching retirement you will generally be able to take up to 25 per cent of your pension fund as a tax-free lump sum. This could be used to supplement your retirement income by reinvesting in a flexible investment.

Wherever you are with your retirement savings, don't be put off from taking action – there are still steps you could take to boost the income you'll get when you retire. ■

### WANT TO DISCOVER WHAT THE FUTURE WILL LOOK LIKE?

**EVEN IF YOUR PENSION IS UP AND RUNNING, THAT'S NOT THE END OF THE STORY. IT'S IMPORTANT THAT YOU REVIEW YOUR PAYMENTS, PARTICULARLY IF YOU HAVE A CHANGE OF CIRCUMSTANCES. IF YOU DON'T KNOW HOW YOUR PENSION'S DOING, YOU CAN'T KNOW WHAT YOUR FUTURE WILL LOOK LIKE. TO DISCUSS HOW WE COULD HELP YOU PLAN FOR RETIREMENT, PLEASE CONTACT US FOR FURTHER INFORMATION.**

*A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*



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

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

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

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Postcode \_\_\_\_\_

Tel. (home) \_\_\_\_\_

Tel. (work) \_\_\_\_\_

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



# Eradicate any financial worries by protecting your income

Choosing the right solutions that are most relevant to your current lifestyle is the key

Most of us don't like to think about how we would manage if we were ill and unable to work. But it's important to sit down and think about the future in this way, if only to give both you and your loved ones peace of mind.

A little forward planning now could provide you or your family with a regular income or cash lump sum at a time when financial worries should be the last thing on your minds.

There are a number of different solutions to choose from. In an ideal world we'd be able to afford them all. But with so many other everyday financial responsibilities, it's better to choose the ones that are most relevant to your lifestyle now. Then, as your needs change, you can change the type of protection that you have in place.

## INCOME PROTECTION MATTERS

Income protection insurance is designed to provide you with a guaranteed regular income if you're too ill to work due to sickness or injury. You usually continue to receive this regular income until you're well enough to return to work. You'll often find income protection referred to as permanent health insurance, income replacement

insurance or long-term disability cover – but they basically do the same thing.

When you buy income protection you choose how much income you want to receive. The maximum income is typically up to 65 per cent of your earned income. The payments are tax-free though, so the shortfall might not be as much as you think.

You need to choose when you want the regular payments to start should you have to make a claim, so you need to include any payments from your employer. Income protection typically pays out until you retire or you recover but you can choose to stop it earlier, perhaps once a mortgage has been paid off. Payments will also stop if you do go back to work. If you were to fall ill again you may be able to claim again.

## THE CRITICAL FACTOR

How would you cope financially if you were suddenly diagnosed with a critical illness and what effect would it have on

your lifestyle? Critical illness insurance can pay out a tax-free cash sum should the insured person be diagnosed with one of a range of specified critical illnesses while the policy is in force. Critical illness cover can be either arranged on its own or included as part of other forms of insurance, such as life cover.

Critical illness policies can vary in the illnesses they cover but most cover illnesses which are consistent with the Association of British Insurers' list of critical illnesses. These include cancer, heart attack and stroke.

You can choose the length of time you want the policy to run for – many will stop when you reach 70 years of age – but it could coincide with the end of your mortgage or children finishing school or university. ■

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

# Is it time to get more flexible with your money?

## Remove the cap on the retirement income you can take

Pension legislation is always on the move and keeping up to date with the latest changes could open up new opportunities for you in retirement. In April 2011, some of the most significant changes in pension legislation for five years were announced.

### GAINING MORE CONTROL

Many of these changes were designed to limit what the government clearly sees as over-generous tax relief concessions. But other changes have created the very appealing prospect, for people aged 55 or more, of gaining more control over when and how they can use their retirement savings.

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

### ENHANCED DRAWDOWN FACILITIES

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

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

### PAYING INCOME TAX

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

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

### PENSION CONTRACT

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

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

WE HELP OUR CLIENTS TO PLAN FOR THE FUTURE BY MEETING THEIR RETIREMENT PLANNING NEEDS. FOR MORE INFORMATION ABOUT HOW WE COULD REALLY MAKE THE MOST OF YOUR RETIREMENT PLANNING, PLEASE CONTACT US FOR FURTHER INFORMATION.

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# What the Chancellor had to say

## Creating a stable economy, a fairer, more efficient and simpler tax system and further reforms to support growth

The Chancellor of the Exchequer, George Osborne, presented his third Budget speech to Parliament on 21 March 2012. It maintained the government's strategy to reduce the deficit, contained far-reaching tax reforms and support for growth and reward for work. The Chancellor set out the actions the government will take in three areas – creating a stable economy, a fairer, more efficient and simpler tax system and further reforms to support growth.

### TAX MATTERS

There was a welcome increase in the Income Tax Personal Allowance for the 2013/14 tax year to £9,205, not far off the government's stated target of £10,000.

However, for the elderly this was largely neutralised – or worse – by the unexpected abolition of the Age Related Personal Allowance from 2013/14 for those not yet 65, and the freezing of the allowance for those who are.

Then there was the reduction in the highest rate of Income Tax from 50 per cent to 45 per cent from 2013/14. It seems likely that taxpayers may wish to delay income receipts until after 5 April 2013, if they are able.

In contrast to the reduction in the top rate of Income Tax, there was a focus on increasing the take from other taxes, with a number of new measures aimed at raising more revenue from the wealthy.

### RESIDENTIAL PROPERTY

A new higher 7 per cent Stamp Duty Land Tax (SDLT) rate on properties costing more than £2m was introduced. Also, the UK will now copy many other countries in taxing the gains realised by non-residents on UK property disposals. However, this will (at least initially) not apply to individuals, and will apply only to gains realised on residential property.

### CHILD BENEFIT

Child benefit will now bring a reduced benefit for those with income of over £50,000 (this is subject to tapering when the claimant earns over £50,000, with it being reduced entirely for those with an income over £60,000).

The first steps were also taken to limiting the amount of tax reliefs such as charitable gifts, losses and loan interest. From 2013/14 the total relief will be limited to £50,000, or 25 per cent of the individual's income, whichever is the greater.

### TAX AVOIDANCE

As part of the government's plan to introduce further measures against tax avoidance, it was no surprise that the headline measure was the new SDLT rate of 15 per cent for residential properties acquired for more than £2m by certain 'non-natural' persons (i.e. not individuals). This applies immediately and it is also planned to introduce an annual charge for properties owned by these non-natural persons, but only from 2013. The Chancellor made it clear that attempts to circumvent the new rules would be blocked retrospectively.

### INHERITANCE TAX

Other welcome measures included a proposal to increase the Inheritance Tax (IHT) threshold from £55,000 for

gifts from a domiciled to a non-domiciled spouse (or civil partner); and for the non-domiciled spouse to elect to be treated as domiciled – thus allowing full IHT exemption.

### OTHER MEASURES

Many previously announced measures remained unaltered, such as the limits for tax-favoured investments in Enterprise Investment Scheme (EIS) shares (£1m from 6 April 2012) and Venture Capital Trusts (VCT) shares (£200,000 from 6 April 2012), and the IHT threshold (remaining at £325,000). ■

*Levels of tax benefits are based on current or proposed legislation and may vary as a result of statutory change and their value will depend on individual circumstances.*



*The Chancellor of the Exchequer, George Osborne*

# Picking the right balance of assets for your portfolio

## Keeping track of lots of individual assets can be a daunting task

Picking the right balance of assets for your portfolio depends upon your own risk profile. One way to protect your portfolio is to spread your risk by diversifying across several different types of investment funds and classes of securities and localities in order to distribute and control risk.

### DIFFERENT RISK CHARACTERISTICS

There are many different assets in which you can invest, each with different risk characteristics. While the risks attributable to assets cannot be avoided, when managed collectively as part of a diversified portfolio, they can be diluted.

The main assets available are shares, bonds (also referred to as 'fixed interest'), cash and property.

While individual assets have a bearing on the overall level of risk you are exposed to, the correlation between the assets has an even greater bearing. The aim is to select assets that behave in different ways, the theory being that when one is underperforming, the other is 'outperforming'.

Fixed interest investments and property, for example, behave differently to share-based investments by offering lower, more consistent returns. This provides a 'safety net' by diversifying away from many of the risks associated with reliance upon one particular asset.

### SPREADING INVESTMENTS ACROSS DIFFERENT ASSETS

Keeping track of lots of individual assets can be a daunting task. A much simpler solution is to acquire investment funds containing those assets and leave the diversification worries to professional management. By purchasing a fund that invests in, say, large blue chip companies, another that invests in smaller growth companies and others that invest overseas, you can spread investments across hundreds of different assets.

### REDUCE SHARE-SPECIFIC RISK BY DIVERSIFYING

By diversifying within assets, you can spread your investments into different shares or bonds to ensure your portfolio is exposed to lots of different types of investments rather than, for example, having shares in just a few large companies. In this way, share-specific risk can be reduced should one of those companies experience difficulties.

### DIFFERENT SECTORS PERFORM IN VERY DIFFERENT WAYS

It is just as important to spread your investments across different sectors – areas of the economy where businesses share the same or a related product or service, for example, pharmaceuticals, telecommunications or retail – as well as different companies. Companies are classified by the sector in which they reside, which is dependent on the goods or services they sell or provide.

For many reasons, companies within different sectors perform in very different ways. By diversifying across sectors you can access shares with high growth expectations without over-exposing your portfolio as a whole to undue risk.

### GREATER GEOGRAPHICAL DIVERSIFICATION CAN HELP

It's natural to feel more comfortable investing a portfolio in your home market but this is not necessarily the most sensible option. Because investments in different geographical economies generally operate in different economic cycles, they have less than perfect correlation. That's why greater geographical diversification can help to

offset losses in a portfolio and help to achieve better returns over time.

### INVESTMENTS STYLES TO SUIT YOUR NEEDS

This is another important aspect to consider when building an investment portfolio. Some investment funds use a 'passive' strategy. This is an investment approach that aims to mirror or 'track' the performance of a financial index. This is normally done by either investing in the exact constituents of an index or by taking a representative 'sample' of that index. The managers of such funds have lower expenses than active fund managers, and the charges to investors are therefore lower.

Other funds use an 'active' approach and aim to beat the index by using their own research and analysis to select shares they believe will achieve greater returns. ■

**NO MATTER WHAT YOUR INVESTMENT GOALS ARE AND HOW MUCH YOU WISH TO INVEST, WE CAN WORK WITH YOU TO DEVELOP THE BEST PORTFOLIO FOR YOU. TO DISCUSS YOUR WEALTH CREATION OBJECTIVES, PLEASE CONTACT US.**

*This information sets out the basics of portfolio diversification. It is not designed to be investment advice and should not be interpreted as such. Other factors will need to be taken into account before making an investment decision. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Past performance is not a guide to future performance*

# Automatic pension enrolment

## Latest delay scarcely made the news

Reforms designed to get more people saving for retirement have been pushed back so many times that the latest delay scarcely made the news. It will now be October 2018 before minimum employer contributions to workplace pensions are fully phased in. Previously, this was supposed to happen by October 2017 – and before that by 2016, and before that by 2015.

### CONTRIBUTIONS LESS AFFORDABLE

The government says it is taking things more slowly because economic conditions have made contributions less affordable. Nonetheless, the Department for Work and Pensions (DWP) insists it will adhere to the latest timetable regardless of whether the economy improves.

### EMPLOYER OBLIGATIONS

Under the new laws, employees will be automatically enrolled into a pension scheme with employer contributions if they are aged between 22 and the state pension age, earn at least £8,105\* a year and are not already in a scheme that meets minimum standards. Once enrolled, employees can opt out. But saving in a pension will be the new default setting for anyone who does not express a choice.

Eventually, the automatic level of contributions must be at least 8 per cent of the individual's 'qualifying earnings'. This includes 3 per cent that must come from the employer. Qualifying earnings also include payments like overtime and commission, not just salary.

### DEFINITIONS OF PAY

Employers can set higher contribution rates if they prefer. They will also have the option of basing contributions on more straightforward definitions of pay, which would usually increase the amount due.

If you are not already in a workplace pension scheme, when you will be enrolled depends on how many people are in your employer's Pay-As-You-Earn tax arrangement. The automatic enrolment regime applies to the very largest employers from October 2012.

### SMALLER EMPLOYERS

Progressively smaller employers will then be brought on board month by month until February 2014, when all employers with 250 or more staff will be within scope. Firms with 250 to 2,999 people on the payroll will not now get extra breathing space, as had been hinted in November.

Employers with between 50 and 249 staff will have compliance dates ranging from April 2014 to April 2015.

For firms with fewer than 50 employees, these deadlines fall between June 2015 and April 2017, unless whoever wins the intervening general election offers them a further reprieve.

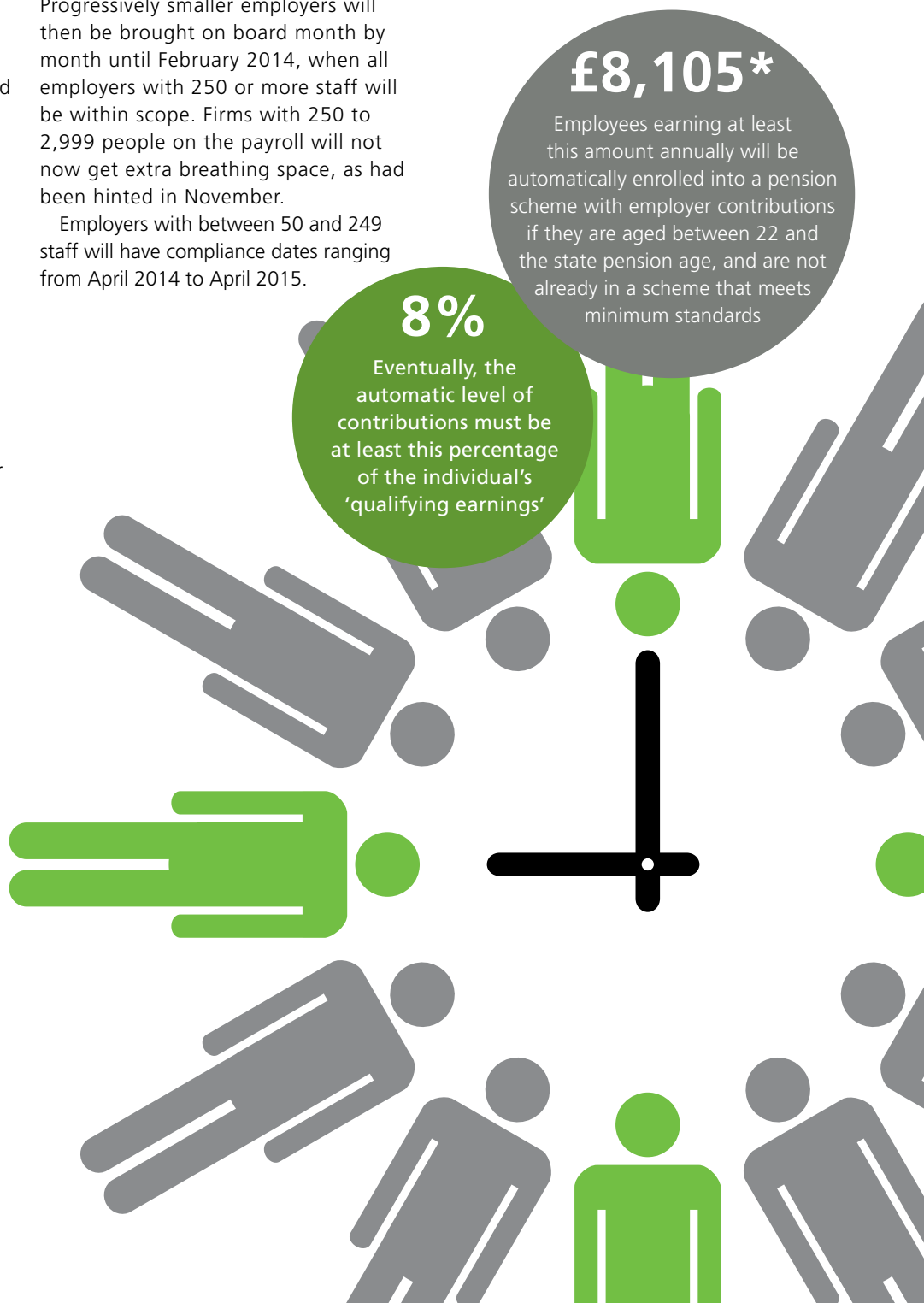
Any employer setting up business between 1 April 2012 and 30 September 2017 will have auto enrolment dates between 1 May 2017 and 1 February 2018. ■

£8,105\*

Employees earning at least this amount annually will be automatically enrolled into a pension scheme with employer contributions if they are aged between 22 and the state pension age, and are not already in a scheme that meets minimum standards

8%

Eventually, the automatic level of contributions must be at least this percentage of the individual's 'qualifying earnings'







# Alternatives to help people improve income levels

## Valuable planning opportunities in a retirement market where the gilt yield has declined

In a low gilt yield environment, having flexibility within a pension arrangement can make a big difference. Options include either delaying taking pension benefits until the situation improves, or phasing money into drawdown, to benefit from any potential upturn.

### IMMEDIATE INCOME NEEDS

Alternatively, some people may choose to use other savings as a means of providing for their immediate income needs, delaying the use of pension savings until later. Using other savings first, such as Individual Savings Accounts (ISAs), leaves the pension fund untouched and available for drawdown as and when the situation improves.

The changes made to the income drawdown rules in April 2011 means that more people can delay accessing their pension benefits as they no longer have to buy an annuity by age 75, which may help to provide greater flexibility at a time when people need it.

### PHASING OF MONEY

Another consideration is the phasing of money into drawdown, to benefit from any potential upturn of both investment markets and gilt yields. By keeping some pension money back, and drip-feeding it in when stock markets and/or gilt yields improve, could mean creating a higher income level while inside a three-year review period. If the pension scheme is structured in the right way the higher

income level should apply to the entire drawdown fund, not just the additional amount drip-fed in, making it an attractive solution in today's investment market.

Care should be taken when considering this type of retirement income planning. If additional money is drip-fed into income drawdown when conditions are not favourable, for example, when gilt rates or investment markets have fallen further, it may have a negative impact on maximum income levels.

### OPTION OF ANNUAL REVIEWS

Keeping some pension money back is a particularly good tactic for those who have a pension contract that does not allow them the option of annual reviews. If they only offer the statutory three-year review period, then people could have to wait a long time before they can benefit from any improvement in market conditions.

### PLANNING OPPORTUNITIES

These kinds of planning opportunities may be particularly valuable in a retirement market where the gilt yield has declined, impacting the maximum income available from both income withdrawal

arrangements and pension annuities.

The cap on the maximum amount of income someone can withdraw from their pension can be a cause of real frustration for many people. However, there are alternatives to help people improve their income levels. ■

IT'S CRUCIAL TO FIND OUT HOW YOU CAN AFFORD THE RETIREMENT YOU WANT. IF YOU'RE APPROACHING RETIREMENT, IT MAY BE TIME TO THINK HARD ABOUT TURNING YOUR PENSION FUND INTO AN INCOME FOR LIFE. IF YOU'RE ALREADY RETIRED, THERE COULD STILL BE THINGS YOU CAN DO TO HELP BOOST YOUR INCOME. TO DISCUSS THE OPTIONS AVAILABLE TO YOU, PLEASE CONTACT US.

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*Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

# 'Will' your loved ones get your inheritance?

## Make sure you avoid unnecessary legal complications and emotional hardship

Despite being a fundamental piece of family financial planning, six out of ten (61 per cent) of British adults don't currently have a will\* drawn up, according to research by Standard Life.

The research reveals that this becomes even more worrying when looking at the figures of those with children in the household and also by age.

People with no children (41 per cent) in the household are more likely to currently have a will in place than those with children at home (27 per cent).

### CURRENTLY WITHOUT A WILL

Looking at the age breakdown, more than two-thirds (77 per cent) of 35 to 44-year-olds don't have a will in place, more than half (56 per cent) of 45 to 54-year-olds, two-fifths (42 per cent) of 55 to 64-year-olds and almost a quarter (24 per cent) of those 65 and over are currently without a will.

Creating a will can be seen as a difficult and uncomfortable thing to do. The modern family can be complicated, we're all rushed off our feet and we don't really like to think about death. But the reality is if you were to die without a will the emotional strain on your family, friends and loved ones could far outweigh the time and money spent in sorting out your will in advance.

### UNNECESSARY LEGAL COMPLICATIONS

The fact that the number of people without a will who live as married is so high (78 per cent) is alarming. Couples who aren't married or in a registered Civil Partnership do not have the same legal protection as married couples if they die without a will in place.

If one of them were to die, the money could be passed on to their parents or a family member before their partner. This can, of course, lead to unnecessary legal complications and financial hardship that could easily be avoided. Therefore a large proportion of this group really needs to review their circumstances and prioritise the value of having a will to protect their partner and any children they might also have in the relationship.

### NO SUBSTANTIAL ASSETS

The research reveals that three out of ten (31 per cent) of those currently without a will claim the main reason is that they just haven't got round to doing it yet. This figure is consistent for those aged 65 and over, with 30 per cent stating they haven't got round to creating a will.

The next most frequently stated reasons are that people don't think they have any substantial assets or that they are too young (both 17 per cent), followed by one in ten (10 per cent) who simply haven't thought about it. The percentage of those who felt it was too expensive to have a will prepared was very low at only 7 per cent.

### PEOPLE'S PRIORITIES

As the research proves, the vast majority of people currently without a will aren't concerned about the cost of creating a will. However, the fact that they're using lack of time as an excuse shows a real sense of people's priorities. Though the decisions that need to be made

might take some time to think through, finalising a will is not an arduous process and can be done quickly. And also, while some might not believe they have any substantial assets to pass on, it's important to remember that having a will in place is about peace of mind and confidence in having your affairs in order. ■

### CAN WE HELP?

BENJAMIN FRANKLIN ONCE SAID THAT 'NOTHING IS CERTAIN BUT DEATH AND TAXES' – AND THEY ARE INTRINSICALLY LINKED. OBTAINING THE RIGHT ADVICE CAN HAVE LASTING CONSEQUENCES FOR YOU AND YOUR FAMILY. TO DISCUSS HOW WE COULD HELP YOU FIND THE RIGHT WEALTH STRUCTURE OR COMBINATION OF STRUCTURES, PLEASE CONTACT US.

*The Financial Services Authority does not regulate taxation, trust advice or will writing.*

*\*By will, the research means a legally executed document that explains how and to whom a person would like his or her property distributed after death.*

*All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,051 adults. Fieldwork was undertaken between 8-10 February 2012. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).*

**61%**

The percentage of British adults who don't currently have a will\* drawn up

**31%**

The percentage of people currently without a will who claim the main reason is that they just haven't got round to doing it yet

**78%**

The percentage of people without a will who live as married



101,000

The number of filed tax returns in 2009/10 which included discretionary trusts

# The impact of **Budget 2012** on your financial planning

## How do the changes affect your pocket?

### CHANGE TO RETIREMENT AGE

The Chancellor confirmed in Budget 2012 that he would increase the state pension age and that we should brace ourselves for having to work much longer in the future. There are already two increases to the state pension age scheduled for 2019 and 2026. If after 2026 the state pension age increases in line with our changing life expectancy, we could expect that someone who is currently 37 won't be able to start drawing their state pension until they are 70 and someone who is 21 won't receive it until they are 75.

This means that children born in 2012 are unlikely to get their state pension until age 80, if life expectancy at retirement rises in line with the last 30 years. This is a considerable change for everyone, but women in particular have to make a big psychological adjustment as their state pension age is leaping forward.

The two increases already planned for 2019 and 2026 will be followed by increases every five years thereafter. If you are thinking 'this won't really affect me, I'm still going to aim to retire at 60 or 65 anyway', unless all of us save a lot harder, many people could still be working well into their seventies.

### PENSIONS TAX RELIEF

The Chancellor did not make a change to tax relief on pension contributions. This valuable incentive encourages more people to save for their retirement years. Tax relief on qualifying contributions into private pensions means that a £100 investment made by a basic rate tax payer is automatically topped up to £125. And if you are a higher rate tax payer you can still claim the higher rate tax rebate too.

This tax incentive encourages many to make the most of pension contributions now, so they can make the most of their retirement in the future.

### NO CHANGE ON GAD MAXIMUM

The government did not make changes to the drawdown Government Actuary's Department (GAD) maximum. People starting drawdown or who have reviewed it during the last year may have had their income affected by falling gilt yields caused by the Bank of England quantitative easing programme. At the same time annuities have also experienced a similar impact, but to a lesser degree as they are backed by a mix of corporate bonds and gilts.

### GOVERNMENT ENDS SALARY SACRIFICE TO FUND EMPLOYEE'S SPOUSE'S PENSION

The government announced the cessation of salary sacrifice to fund an employee's spouse's pension. This tax 'idea' involved an employee sacrificing salary or bonus and their employer paying this into the employee's spouse's pension up to the annual allowance, including carry-forward.

### INTRODUCTION OF A GENERAL ANTI-AVOIDANCE RULE (GAAR)

The direction of travel towards a more limited form of GAAR was set out in the Aaronson Report in November last year. Those endorsing sensible tax planning should have nothing to fear if the recommendations in that report, which target schemes that are artificial or contrived, are implemented. Individuals implementing tried and tested routes to mitigate UK tax should not be affected.

### EXTENSION TO IHT SPOUSE EXEMPTION FOR EUROPEAN DOMICILED SPOUSE

A consultation review of the restriction on the spouse/civil partner exemption was announced. In the last few years, EU law has had an increasing impact on UK Inheritance Tax (IHT). IHT reliefs and exemptions for agricultural property and charities have been extended to cover the European Economic Area in 2009 and 2010. The announcement is good news for those whose spouse/civil partner is from another country, meaning they are domiciled there rather than in the UK. It should remove a tax worry and layer of IHT complexity for mobile people with international connections.

### CHANGES TO DISCRETIONARY TRUSTS

One of the most complex elements of IHT, the ten-year charge and exit charge calculations for IHT in discretionary trusts, is to be simplified. This could be good news for trustees and beneficiaries of these trusts, of which there are thousands in the UK. HM Revenue & Customs statistics show that 101,000 of these types of trust were included in tax returns filed in 2009/10. ■

**TO FIND OUT HOW BUDGET 2012 MAY HAVE IMPACTED ON YOUR FINANCIAL PLANS, PLEASE CONTACT US TO REVIEW YOUR SITUATION.**

*Laws and tax rules may change in the future. Information is based on our understanding in March 2012. Your personal circumstances also have an impact on tax treatment.*

# Maximise the lifetime income from your pension at retirement

## Why shopping around for an annuity could increase your income

Thousands of people could end up with bigger pensions as new rules will force insurers to inform customers about better annuity options. The Association of British Insurers' (ABI) new code of conduct forces insurers to give more information about how consumers can 'shop around' for a better deal, while ensuring that those with health problems receive a higher income as a result.

### BUYING THE WRONG TYPE OF ANNUITY

Currently, according to the ABI, more than half of all investors who buy an annuity – which pays a fixed income for life – simply buy the default annuity deal from their current pension provider. As a result many end up buying the wrong type of annuity or effectively locking into an uncompetitive pension deal for the rest of their lives. Shopping around for the best annuity deal could increase the size of a pension by over a third. A recent report from the National Association of Pension Funds claimed that this was costing pensioners more than £1bn in lost retirement income.

### BENEFITS OF SHOPPING AROUND

The new rules stop insurers from including an application form in the information pack sent to customers approaching retirement, making it less likely that people will simply buy the first annuity they see. These 'retirement packs' have been redesigned to place greater emphasis on the benefits of shopping around. Crucially, where insurers are selling an annuity to one of their existing customers, they will be required to ask about their circumstances and medical conditions before providing a quote. ■

*A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

### NEED HELP TO SHOP AROUND FOR THE BEST ANNUITY DEAL?

IF YOU ARE APPROACHING RETIREMENT IT IS ESSENTIAL THAT YOU RECEIVE THE BEST POSSIBLE ADVICE WHEN BUYING AN ANNUITY. TO GET THE MOST OUT OF YOUR PENSION SAVINGS FUND YOU SHOULD BE CONFIDENT THAT YOU ARE MAKING THE RIGHT DECISIONS ABOUT YOUR RETIREMENT INCOME. TO DISCUSS HOW WE COULD HELP YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

