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Independent financial advice a top priority

During the first quarter of 2009, unbiased.co.uk – the free independent advice search facility – received almost 115,000 enquiries from consumers looking for independent financial advice. (Source: unbiased.co.uk)

The research revealed, with 31% of all enquiries, retirement planning advice as the top priority, followed by investments and savings advice at 24% of total enquiries.

If you need to review your retirement plans or investments, contact your Positive Solutions IFA Partner to receive your independent financial advice.

Spotlight on investment bonds

What is an investment bond?

An investment bond is, by definition, a life assurance policy. However, its use is as a lump-sum investment designed to produce growth or income. The policyholder invests a lump sum and chooses from a range of managed investment funds, either run by the bond provider or by external investment managers.

Tax benefits

Their status as a life assurance policy means you incur tax (currently 20%) on any income and gains within the investment fund before you receive any return. This means basic-rate tax payers usually have no more tax to pay. However, when you cash in an investment bond, any gains are added to your other income when assessing you for income tax. If this then makes you a higher-rate tax payer, there is a further 20% tax to pay.

This tax treatment can give current higher-rate tax payers a useful tax deferral mechanism. For those current higher-rate tax payers who see themselves as future basic-rate tax payers it gets even better, as this means there will be no further liability to tax when cashing in the bond.

The investment bond as an income tool

The tax treatment of the investment bond gives it, arguably, its most endearing feature – the 5% withdrawal. This allows you to withdraw 5% of the original investment every year for 20 years with no immediate tax liability. This is because the withdrawal is considered to be capital rather than an investment gain. For example, someone investing £100,000 in an investment bond can receive an income of £5,000 a year, for twenty years, with no immediate tax liability.

This facility can be especially useful for retired people as the withdrawal has no impact on any means-tested benefits. It also has an added benefit for over 65s who receive a significantly higher personal income tax allowance. This tax allowance in 2009/10 is £9,490 for those aged 65 to 74, and £9,640 for those aged 75 and over. However, this allowance reduces by 50 pence for every pound of income that exceeds £22,900 in the 2009/10 tax year. As the 5% withdrawal does not count as income, it does not have an impact on entitlement to age allowance.

The investment bond as an inheritance tax planning tool

As a life assurance policy, an investment bond can be written in trust. This means you can give it away, lend it or assign it without creating a tax liability. As inheritance tax planning revolves around transferring money from one person to another, the investment bond has a big part to play.

The investment bond for the risk-averse investor

An investment bond gives access to a wide range of investments to suit all attitudes to risk. However, some investors want no risk to their capital, yet need an alternative to a deposit account, especially in the current climate of low interest rates. This is where guaranteed investment bonds play a useful role as they will often offer either a guaranteed income or a capital guarantee.

A versatile all-rounder

As we've explained, the investment bond is a flexible product that has many uses. However, because of its flexibility and various forms you should seek professional independent financial advice before investing, so you are sure it is right for you. If you think investment bonds might play a part in your financial plans, contact your Positive Solutions IFA Partner.

The content of the article is based on the current income tax bands and legislation, which may change in future.



Releasing equity

The picture that most of us conjure up when we think of retiring is often one of holidays and spending time on activities we don't have time for while we are working. For many people, the reality is different.

Many pensioners simply can't afford to do everything they hoped they would; sometimes they are not even able to live the same lifestyle they had before retirement. When we get to retirement it is too late to begin saving for retirement so what choices do we have?

One way of creating money is to sell up and move to a smaller home. But, not everyone wants to move out of the home they've lived in for what may have been decades. Others simply can't bear the thought of the physical upheaval and stress that comes with moving home. If this sounds like you, then you might want to consider releasing some of the equity in your home.

Many retired people are living in properties which, even with the recent fall in house prices, will be worth a lot more than they paid for them. The average UK house price in July 2009 was £158,871. (Source Nationwide House Price Index 30 July 2009.) This means many people, while not cash rich, are asset rich. Equity release provides a way of turning this asset into often much-needed cash.

Equity release plans come in two forms: lifetime mortgages and home reversion plans. Although each of these schemes achieves the same end (they allow you to release equity tied up in your home) they do it differently.

What they do have in common is they allow you to access your equity without you needing to worry about making mortgage repayments, while continuing to live in your home until you die or move into long-term care.

Equity release plans are complex products and it is important you seek expert advice before you decide anything. Contact your Positive Solutions IFA Partner if you wish to find out more about equity release.

Equity release is a lifetime mortgage or home reversion scheme. To understand the features and risks, ask for a personalised illustration.

Equity release plans in a nutshell

Lifetime mortgages

A lifetime mortgage is a way of borrowing money against the value of your home, which you can take as a lump sum or income, or combination of both. You continue living in your home and make no repayments to the lender. The interest rolls up and the debt is repaid out of the proceeds from selling your home when you die or move into long-term care.

Home reversion plans

A home reversion plan allows you to release equity by selling all or part of your home. You can then use the proceeds to provide an income. Although you have sold some or all of your home, you continue to live in it until you die or move into long-term care.

We give you the option of paying a fee for our mortgage advice. The precise amount will depend upon your circumstances, but will typically be 0.3% of the loan e.g. £300 on a loan of £100,000. If you choose to pay a fee and we receive commission, we will pay that commission to you.



Bring some order to your retirement plans

If, like many people, you have had several jobs during your working life, you may have collected a few pensions over the years. You may also have a few personal pensions if you've ever been self-employed.

If you fall into this category it's well worth you asking your Positive Solutions IFA Partner to carry out a review of your retirement planning. As well as considering all your investments and assessing how they contribute to your retirement plans, this review will include assessing whether there is any benefit in consolidating all your pensions in one place. This is what we call pensions consolidation.

Consolidating your pensions can offer several benefits:

Potentially lower charges

Combining your existing pensions into a single, larger pension may allow you to achieve some economies of scale. This can result in reduced charges based on having a larger pension fund. Lower charges can mean you keep more of any investment growth.

A single coherent investment strategy

It is easier to manage your investment when it is in one place than it is when split across several plans. This means you can make investment decisions that apply to your whole pension fund rather than having to do it piecemeal.

Single source of information

Receiving valuations and projections of likely retirement benefits at different times doesn't help you to form an opinion of what you can expect when you retire. Consolidating your pensions means one valuation and projection, making it easier for you to keep track.

More flexibility

When it is time to retire, one large pension fund can give you far more choice in how to take your retirement benefits than several smaller ones can.

As well as these advantages, there can be disadvantages too. There may be guarantees that you wouldn't want to lose. Sometimes the costs involved in transferring can destroy any advantages. And you also need to consider the impact on any death benefits. This is why you need professional independent advice to ensure you only do what's right for you. Contact your Positive Solutions IFA Partner if you think pensions consolidation might help your retirement.

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The suitability of pension consolidation depends on your individual circumstances, needs and existing arrangements. It may not be possible to achieve reduced charges.



Call your Positive Solutions IFA Partner to discuss your needs.



If you wish to discuss your financial planning needs, or any other content in this newsletter, please contact your Positive Solutions IFA Partner.

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