Annuity Rates and Income Drawdown

The latest interest rate cuts affect more than just savings rates. They also hit annuity rates, meaning the income from pension funds could also be hit. This is all very well - unless of course, you are about to retire, in which case, some ideas about how to maximise your income might be very welcome.

Income drawdown (also called an unsecured pension) is just one option to consider. What this offers is the chance to defer purchase of an annuity, leave your fund invested and in the meantime, draw an income direct from the fund. The rest stays invested until you perhaps consider it is a better environment to retire - or until age 75 when your needs must be reviewed, regardless. This allows you some flexibility in your planning. Subject to a maximum (which is defined by the Government's Actuary and reviewed every 5 years), any amount of income can be withdrawn. So, for example, if you continue working part time, you could draw just a small amount to start with, then increase it as your hours reduce. Or, you could take the tax free lump sum but leave the fund which will provide your income invested.

There are drawbacks. First, even given recent market disappointment, your fund could fall (further) in value leaving less than you have now. There are also charges for staying invested that would stop if you bought an annuity - and there are fees for carrying out reviews. Finally, there is no guarantee annuity rates will improve. However, you only get one chance to buy the correct annuity so you should ensure you check out all your options.

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Cash Flow Forecasting

A financial plan can be offered to clients without any products being recommended, after all any products are effectively tools which are used to meet the requirements of the plan. Without a coherent plan how can we ascertain which tools to use?

Waveney McKenna offer a financial planning report looking at your cash flows which take account of the following:-

1) All existing arrangements are entered into the specialist software so that an accurate picture of where you stand now is ascertained.
2) Various assumptions with regard to growth in investments, funding and inflation are used together with key dates; often these are life events such as retirement, mortgage repayment, marriage of a child, replacement of a car and disability.
3) A cash flow analysis then looks at the lifetime cash flow picture to assess whether objectives are being met, if not what action needs to be taken and when will capital run out.
4) We run various what if scenarios, for example, if you were to die and what effect this would have on cash flow for your partner or spouse.

The outcomes of the plan help to ascertain what level of risk needs to be taken to meet an objective (and whether this is achievable at all) and the impact of various potential events. A plan is then formulated to help meet the areas highlighted from the results of the cash flow analysis. These reports add significant value to planning with the stand alone service being available on a fee only basis. The fee is agreed at outset and is dependent on the complexity of a particular financial profile.

Interesting Statistics

The following statistics are available at: www.statistics.gov.uk

- Bank of England Base Rate 0.5%
- CPI 1.6% (target 2%).
- RPI –1.3% (old measure of inflation)
- RPIX 1.4% (excluding mortgage interest)
- Unemployment 7.9% (up 0.7% on the quarter and 2.3% over 1 year)
- National Average Earnings Index 1.7%
- Producer Prices Index –0.4% (Output)
- Producer Prices Index –7.5% (Input—materials and fuel)

www.housepricecrash.co.uk

- Halifax Average House Price now £160,973

Waveney Newsletter

Issue 7
September 2009

WAVENEY McKENNA LIMITED
Independent Financial Advisors
Independent Mortgage Advisors

Contents

Personal Accounts

The pensions landscape continues to change. We are all aware that there is a savings gap for many at retirement and continual Government changes to pensions have eroded trust in the system.

In our opinion pensions offer better tax breaks than many other investments, greater flexibility, lower charges and better value than in the past but we do empathise with those who have lost faith in the system and certainly for higher earners the ability to contribute and merits of so doing are becoming questionable.

In view of the current antipathy towards pensions and the shortfall in funding, the Government is now legislating to make pension contributions compulsory. At the same time the state pension system is being amended to offer higher benefits for lower earners with the retirement age being increased to age 68 for many.

Employer Update

The Pensions Act 2008 introduced new responsibilities for employers from 2012 with the concept of personal accounts. An employer who does not offer a qualifying scheme will have to offer a pension to employees with funding by both parties being compulsory at 3% from the employer and 5% gross from the employee.

All employees aged between 22 and the state pension age will be auto enrolled into the pension and those aged between 16 and 21 can ask to join. Any individual can opt out but must then be re-enrolled every 3 years.

The duties of employers will be onerous and it is important to review your plans going forward.

Individual Savings Accounts

From October 6th the limit for those over 50 investing in ISAs increases to £10,200, this increase applies to everyone from April 2010. ISAs offer a very tax efficient method of investing and whilst not perhaps suited to all they should be considered within your portfolio. You can also transfer cash ISAs into a Stocks and Shares ISA although individual advice should be sought to assess whether this is suited to your circumstances and risk profile.

Client Update

Our Newsletter of March 2009 invited you to our seminar on investments and fund supermarkets. The feedback was very positive and attendance was excellent. Many thanks to all those who attended.

Following this success we are arranging a further seminar on estate planning which will include inheritance tax, investments and care home fees planning. If you would like to attend then do register your interest on the enclosed reply card.

Website

The new website is now up and running. A range of downloads can be accessed for information purposes on a number of topics. If you would like to see any additional areas covered or feel that improvements can be made then we would appreciate any feedback. We will continue to increase the functionality offered via the website and keep you updated with the developments.
www.waveneymckenna.co.uk

Office Refurbishment

As the Waveney Group continues to expand in the Peterborough area we have taken on further office space and refurbished the existing premises. This will enhance the local service and facilities we offer.

Welland Valley Badminton Club

Waveney McKenna are pleased to sponsor the Welland Valley Badminton club who meet in Stamford on Mondays and Thursdays at 8.00 pm. Anyone interested in joining a thriving club can contact Ian Burrows on 01733 425818.

The David School

Many of you will know Maureen and may be interested in Maureen's keen support of the David School Project in Sierra Leone. The David School helps to provide educational facilities for over 100 children, more details are available at the following website:- www.thedavidschool.org.

Looking at Long Term Care

Great Britain has an ageing population. Those aged 80 years and over increased by over 1.1million (or 70%) between 1981 and 2007 (Office for National Statistics). Despite this many people do not seek professional advice on what is probably one of the largest financial commitments they make – paying for long term care. Most people are expected to pay at least something towards the cost of accommodation and nursing care in a care home from their income and capital. This article focuses on the main types of funding available and the legal options available to preserve assets for future generations.

What are the main types of funding available?

1. NHS assistance - The NHS may be able to assist with the funding of care provided in a care home. NHS Continuing Healthcare is a package of continuing care arranged and funded by the NHS if certain qualifying criteria are met.
2. Registered Nursing Care Contribution – an NHS payment that supports the care provided by a registered nurse in a care home. This is now paid at a flat rate of £103.80 per week. The Local Authority ("LA") arrange for the assessment and make payments directly to the home.
3. LA Assistance –a financial assessment of means will establish how much a person is to contribute towards their residential care fees (see below).
4. Self Funding – many people pay all of their fees.

The Means Assessment

This is a financial assessment which calculates how much a person is responsible for paying towards the provision of their care. Anyone who has capital over £23,000 will be assessed as being able to pay the "standard rate" (the amount a LA will pay for permanent care).
Residents with capital between £14,000 and £23,000 are expected to make some contribution from their capital as well as income. If capital is under £14,000 then a person will only be expected to contribute towards their fees from their income.

The LA do not assess the joint resources of a couple – only a share of the joint assets – capital and income. The LA treats each of the owners as having an equal interest in a joint asset until it is divided according to the actual interests.

Deprivation of Assets

When making an assessment, the LA will look closely at a person's assets and what they have done with those assets in previous years. They look for evidence of whether or not the person being assessed has deliberately given away their assets in advance with the intention of avoiding care home fees. If evidence is found they will seek to re-dress the situation and will deem that the resident, for the purposes of their assessment, still owns the capital.

How is the matrimonial home treated?

The LA cannot force a person to sell their home to pay for care home fees. Although there is legislation in place that allows a home to be sold this is rarely invoked. The home is disregarded for the first twelve weeks of a permanent stay in a care home. The home will also be exempt indefinitely if it is occupied by:-

1. A spouse or registered civil partner
2. A relative who is either 60 or over
3. A child under 16 who the resident is liable to maintain, or
4. A relative who is incapacitated

The LA has discretion to disregard the property in other circumstances and often a legal advisor is able to assist in persuading the LA that they should use their discretion.

If the property is owned by a couple and each party owns 50% as tenants in common (divided ownership without a right of survivorship) then only the half share of the person being assessed will be taken into consideration. It is important to realise that the value of the 50% share will not be half of the market value of the whole property but significantly less. There are a complex set of rules which govern this area and it is by no means straightforward.

There is also the option of entering into a "deferred payment" arrangement with the LA. This means that the LA can place a charge over the home (like a mortgage) which defers the payment of fees until a later date. The fees owed under such arrangements do not start to accrue interest until 56 days after the death of the person who is responsible for making the payment.

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Business Protection

More than four in ten business owners say their companies would be forced to fold within a year of the death or critical illness of a key person, research has found. The study from Legal & General found some two-fifths (40%) of those surveyed fear they would struggle to continue the business without the input of a vital employee.

However, according to the survey, only 4% of business owners have shareholder protection in place and one in two (50%) does not have any formal agreement to establish what would happen in the event of the death of a business owner.

The results come as the same research concludes the key person protection gap has edged over £400bn while the business protection gap, which also encompasses corporate debt and shareholder protection, has climbed above £1.1 trn. Business protection provides peace of mind for company owners that if they or another key person falls terminally or critically ill, or dies, the business could still survive. It encompasses key person protection, partner/director share protection and business loan protection.

According to Legal & General, the figures show just how few businesses are prepared to handle an event such as the death or critical illness of a key person or business owner.

The company went on to suggest it was the responsibility of the protection industry to get in front of corporate clients and make business owners aware of the importance and benefits of key person, shareholder and business loan protection.

Another finding of the research was that, while half of the businesses surveyed have corporate debt, just 38% of those businesses have life or critical illness policies in place to cover that money owed. Overall, the research estimates there is now a corporate debt gap of just under £300bn, a shareholder protection gap of more than £400bn and a key person protection gap of more than £400bn, which adds up to a total business protection gap, therefore, of £1.1trn.

The survey, which was based on the responses of members of the British Chamber of Commerce, is the first time in four years any organisation has published an update to Swiss Re's widely cited research from 2005, 'The Insurance Report: Protection at what price?'.

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Can I do anything to plan for care home fees?

Simply – yes, but the choices available are a little more complex. (The key ideas raised in this section will not be beneficial planning for Inheritance Tax purposes and may be used in conjunction with financial planning products).

Gifting in lifetime – it is possible to make gifts in lifetime to protect assets for future generations by using an Asset Protection Trust. An alternative is to make gifts directly to a third party, i.e. children.

Gifting through Wills – Where assets are not left absolutely between spouses, this may protect assets for future generations. The use of trusts of property, trusts of residuary estates or gifts to third parties are some of the options available for discussion.

Further information

For more information or to make an appointment to discuss any of these issues further please contact Joanna Scales, Associate Solicitor, at Hegarty LLP Solicitors (48 Broadway, Peterborough, PE1 1YW) on 01733 295552. Alternatively, you can email joanna.scales@hegarty.co.uk.

Client Feedback Form

We have enclosed a further feedback form which we would be grateful if you could spare the time to review, complete and return if possible.

The purpose is to ascertain whether you remain happy with and understand the services we provide. It is also to canvass opinion on additional services you would like to see delivered or whether you would like access to more regular information.

We received a significant number of replies following our last feedback request and are changing some of our processes to deliver more regular reporting. We do analyse the responses and are keen to deliver services which are valued.