

intheknow

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Life expectancy rises unexpectedly

Further pressure on public sector pension schemes

In England and Wales the life expectancy of people has risen unexpectedly, data from a report published by the Faculty and Institute of Actuaries last November has shown. This has raised further the issue of additional increases in the cost of providing pensions and the state pension age.

An extra year of life for a retired person typically means a pension scheme must increase its stock of assets by 3-4 per cent to generate the necessary extra income.

The Faculty and Institute of Actuaries said in their report that life expectancy had increased in 2009, despite data from the previous year indicating a 'slowing down' in mortality improvement, the rate of decrease in the death rate. 'This trend has been partially reversed by the 2009 data for males, and wholly negated for females,' the group said.

Chancellor George Osborne revealed in October last year that the state pension age would rise to 66 by 2020 to tackle the rise in longevity. Increasing longevity also puts pressure on public sector pension schemes, as well as on people who have not saved for their retirement. This issue is likely to affect a wide range of other areas, including healthcare and care for the elderly.

The figures calculated by the actuarial profession come from its long-running research

project, known as the Continuous Mortality Investigation (CMI).

What the numbers show

The improvement in life expectancy is greatest for those who are oldest, particularly for men aged over 80 and women aged over 70.

The current projections suggest that a man who is 100 this year will live, on average, only a further two and a quarter years. This is a 3.7 per cent increase on the 2009 prediction.

By contrast a man aged 20 is predicted to live on average another 70 years, to the age of 90. This is only 0.2 per cent longer than was estimated in 2009.

Women aged 90 are expected to live a further three and a half years on average, which is 2 per cent more than last year.

But the improvement in life expectancy for women aged 20 has risen by just 0.3 per cent in the past year, to just under 92 years.

Inside this issue

Welcome to the latest issue of In the Know magazine from Multiplex, full of information about how we can help you protect and grow your wealth in 2011.

Despite the current economic uncertainty as to what the future holds, pressure will continue for increased rates of taxation. This will be further fuelled by the disparity in rates of taxation, particularly for income and capital gains. We can't over-emphasise the importance of tax planning at an early stage. Ideally you should commence your tax planning before the year even starts but after that, the earlier the better. The current 2010/11 tax year ends on 5 April and, if you haven't done so already, now is the time to start assessing how you could trim a potential tax bill. On page 06, follow our guide to some of the key areas to consider during the period leading up to 5 April.

In the event of your premature death, unless you plan carefully, your family could end up paying a sum in Inheritance Tax (IHT). Have you recently assessed your potential liability to Inheritance Tax (IHT)? If so, and you have a potential liability, have you planned to reduce it? On page 08 we explain how Multiplex could help ensure that more of your hard-earned assets go to the people you want them to rather than falling into the hands of the taxman.

As the 5 April Individual Savings Account (ISA) deadline approaches, every year there is a flurry of last-minute activity. But why leave it to the last minute? Multiplex can help you make an informed decision and ensure you take advantage of using your full ISA allowance. In this current 2010/11 ISA season, the new limit increased to £10,200 for everyone, so it makes sense to make the most of your tax-free allowance. Read the full article on page 09.

A full list of the articles featured in this edition appears on page 02.



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Pension savings

Annual allowance reduced

The annual allowance on pension savings will be reduced from £255,000 to £50,000, commencing 6 April this year, the Treasury announced after revealing the outcome of its consultation on alternatives to restricting tax relief on retirement savings.

The changes will also include reducing the lifetime allowance from the current £1.8m to £1.5m commencing 6 April 2012.

Coalition government proposals announced October 2010

From 6 April 2011 the annual allowance for tax-privileged saving will be reduced from its current level of £255,000 to £50,000.

Deemed contributions to defined benefit schemes will be valued using a 'flat factor' of 16.

Individuals will be allowed to offset contributions exceeding the annual allowance against unused allowance from the previous three years.

The lifetime allowance will be reduced on 6 April 2012 from its current level of £1.8m to £1.5m.

The maximum tax-free lump sum will remain at 25 per cent of the standard lifetime allowance.

Major ill-health cases will be exempted (on top of serious ill-health and death). Redundancy will not.



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Income drawdown

Keeping your pension funds invested beyond your normal retirement date

Income drawdown or 'Unsecured Pensions', became available in 1995. It allows people to take an income from their pension savings while still remaining invested and is an alternative to purchasing an annuity. You decide how much of your pension fund you want to move into drawdown and then you can normally take a 25 per cent tax-free lump sum and draw an income from the rest.

Pensioners funding their retirement through income drawdown are permitted to keep their pension funds invested beyond their normal retirement date. They continue to manage and control their pension fund and make the investment decisions. There is also the opportunity to increase or decrease the income taken as they get older. However, the fund may be depleted by excessive income withdrawals or poor investment performance.

From 6 April 2010 you are now able to choose to take an income from your pension fund from age 55. Tax rules allow you to withdraw anything from 0 per cent to 120 per cent (2010/11) of the relevant annuity you could have bought at outset. These limits are calculated by the Government Actuaries Department (GAD). These GAD rates are reviewed every 5 years. There's no set minimum, which means that you could actually delay taking an income if you want to and simply take your tax-free cash lump sum. The amount of yearly income you take must be reviewed at least every five years.

From age 75, income drawdown is subject to different government limits and become known as

Alternatively Secured Pensions (ASPs). If you're already receiving income from an income drawdown plan, currently when you reach the age of 75 it will become an ASP. But you will still be able to receive a regular income while the rest of your fund remains invested. The minimum amount you can withdraw is 55 per cent (2010/11) of an amount calculated by applying the funds available to the GAD table, while the

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maximum is 90 per cent (2010/11). These limits must be reviewed and recalculated at the start of each pension year.

The government is currently consulting on changes to the rules

on having to take a pension income by age 75 and, following a review conducted in June 2010, plans to abolish ASPs. Instead, income drawdown would continue for the whole of your retirement. The withdrawal limits are significantly less for ASPs, and the vast majority of people will be better off purchasing an annuity.

The new rules are likely to take effect from April 2011. If you reach

only when the pension fund is made available to provide an income, either by entering income drawdown or by setting up an annuity. Pension benefits are likely to be tested against the Lifetime Allowance at age 75.

Currently, on death in drawdown before age 75, there is a 35 per cent tax charge if benefits are paid out as a lump sum. On death in ASP, a lump sum payment is potentially subject to combined tax charges of up to 82 per cent. It is proposed that these tax charges will be replaced with a single tax charge of around 55 per cent for those in drawdown or those over 75 who have not taken their benefits.

If you die under the age of 75 before taking benefits, your pension can normally be paid to your beneficiaries as a lump sum, free of tax. This applies currently and under the new proposals.

For pensioners using drawdown as their main source of retirement income, the proposed rules would remain similar to those in existence now with a restricted maximum income. However, for pensioners who can prove they have a certain (currently unknown) level of secure pension income from other sources, there will potentially be a more flexible form of drawdown available that allows the investor to take unlimited withdrawals from the fund subject to income tax.

As a general rule, you should try to keep your withdrawals within the natural yields on your investments.



This way you will not be eating into your capital.

Since 6 April 1996 it's been possible for protected rights money to be included in an income drawdown plan, but before A-Day protected rights couldn't be included in a phased income drawdown plan.

For investors who reached age 75 after 22 June 2010 but before the full changes are implemented, interim measures are in place that, broadly speaking, apply drawdown rules and not ASP rules after age 75. These interim measures are expected to cease when the full changes are implemented. Any tax-free cash must still normally be taken before age 75, although there will be no requirement to draw an income. In the event of death any remaining pension pot can be passed to a nominated beneficiary as a lump sum subject to a 35 per cent tax charge.

As with any investment you need to be mindful of the fact that, when utilising income drawdown, your fund could be significantly, if not completely, eroded in adverse market conditions or if you make poor investment decisions. In the worst case scenario, this could leave you with no income during your retirement.

You also need to consider the implications of withdrawals, charges and inflation on your overall fund. Investors considering income drawdown should have

a significantly more adventurous attitude to investment risk than someone buying a lifetime annuity.

In addition there is longevity to consider. No-one likes to give serious thought to the prospect of dying, but pensioners with a significant chance of passing away during the early years of their retirement may well fare better with an income drawdown plan, because it allows the pension assets to be passed on to dependants.

A spouse has a number of options when it comes to the remaining invested fund. The spouse can continue within income drawdown until they are 75 or until the time that their deceased spouse would have reached 75, whichever is the sooner. Any income received from this arrangement would be subject to income tax. By taking the fund as a lump sum, the spouse must pay a 35 per cent tax charge. In general, the residual fund is paid free of inheritance tax, although HM Revenue & Customs may apply this tax.

The value of investments and the income from them can go down as well as up and 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.

No-one likes to give serious thought to the prospect of dying, but pensioners with a significant chance of passing away during the early years of their retirement may well fare better with an income drawdown plan, because it allows the pension assets to be passed on to dependants.

If you are looking to retain ownership of your capital and a degree of choice about how and when you draw an income and you want to find out more about income drawdown – please contact Paul McKinney on 01565 756199 or email paul.mckinney@multiplex.org.uk

Make time to review your personal tax position

Essential planning to beat the 5 April 2011 deadline

Despite the current economic uncertainty as to what the future holds, pressure will continue for increased rates of taxation. This will be further fuelled by the disparity in rates of taxation, particularly for income and capital gains. We can't over-emphasise the importance of tax planning at an early stage.

Ideally you should commence your tax planning before the year even starts but after that, the earlier the better. The current 2010/11 tax year ends on 5 April and if you haven't done so already, now is the time to start assessing how you could trim a potential tax bill.

Wherever the terms 'spouse', 'spouses' or 'married couple' are used, these also apply to same sex couples who have entered into a civil partnership under the Civil Partnership Act as well as to a husband-and-wife married couple.

Income splitting between spouses

Married couples in 2010/11 could potentially make tax savings by reducing or eliminating higher rate tax liabilities, achieved by reviewing the split of income between spouses.

It may be possible to save significant amounts of tax where assets on which investment income arise are transferred from a higher tax rate paying spouse to a lower tax rate paying spouse or to one with no income.

For a redistribution of income to be effective, there must be an unconditional and outright transfer of the underlying asset that gives rise to the income. This means that tax savings may not immediately arise following an asset transfer between spouses until new income arises.

Examples of tax savings:

Moving £43,000 of investment income from a 40 per cent tax-paying spouse to one with no income could generate a saving of up to almost £10,000 in 2010/11.

A gross dividend of £50,000 arising to an additional tax rate paying spouse means an additional tax bill (after taking the 10 per cent tax credit into account) of £16,250 compared to only £11,250 for a 40 per cent tax rate paying spouse, providing £5,000 of tax savings.

Moving £10,000 of investment income from a spouse whose income is expected to be between £100,000 and £112,950 to a non tax-paying spouse saves £6,000 due to the recovery of personal allowance as well as the higher rate tax saving.

These high levels of tax saving are unlikely to be possible for many but savings can still be made

by much smaller transfers of income. Moving just £1,000 of savings income from a 40 per cent higher rate tax-paying spouse to one with income below the personal allowance (£6,475) may save £400 this tax year.

Jointly owning assets

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration on Form 17 is made to HM Revenue & Customs (HMRC) stating that the asset is owned in unequal shares. The election must be made before the income arises. This could be particularly relevant for a property investment business producing rental income, so consider such a declaration when a new jointly owned asset is acquired.

The exception to this rule is dividend income from jointly owned shares in 'close' companies, which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may also be made if you are self-employed. For example, your spouse could be taken into partnership or employed by the business. Alternatively, a spouse could be employed by the family company. However, in each case, the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse.

Using a child's allowance

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

The 65 and overs

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £22,900. In such circumstances a move to capital growth or tax-free investments may preserve the higher personal allowances.

Capital Gains Tax (CGT)

Each individual has an annual exemption for CGT purposes. This is £10,100 for 2010/11. You should review your chargeable assets and

consider selling before 6 April 2011 to utilise the exemption.

Bed and breakfasting (sale and repurchase overnight) of the same class of shares is no longer tax effective. However, sale by one spouse and repurchase by the other, or sale outside an Individual Saving Account (ISA) allowance and repurchase inside, may achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children may use their own annual exemption and take advantage of this by investing for capital growth. So with some careful planning this could lead to a £10,100 of gain per family member being realised every year tax-free.

A split tax year

This year is unique in that there is a split tax year position in relation to CGT.

Before 23 June 2010

Certain qualifying business gains were eligible for an effective 10 per cent tax rate where Entrepreneurs' Relief (ER) was available.

Other gains were charged at a flat rate of 18 per cent.

The ER lifetime limit available covers the first £2m of eligible gains.

From 23 June 2010

Certain qualifying business gains are charged at 10 per cent where ER is available.

CGT of 18 per cent or 28 per cent will apply to any other chargeable gains once the annual exemption has been used.

Both the annual exemption and capital losses can be allocated to minimise an individual's CGT liability.

The 18 per cent rate will only be available for gains when an individual is deemed to have basic rate band available after taking income and business gains into consideration.

Other considerations

If you have two homes you may be able to make elections to maximise the 'main residence' exemption.

It may be possible to establish capital losses for use by making a claim where assets no longer have any value – a 'negligible value' claim.

Family companies

A director/shareholder of a family company can extract profits from the company in a number

of ways. The two most common are by way of bonus or dividend. For every £1,500 retained by a 40 per cent higher rate tax-paying individual, the cost to the company is £2,000 if a dividend is paid and £2,266 if a bonus is paid.

This assumes the company is liable to corporation tax on its profits at the small companies' rate of 21 per cent. There are other factors that may affect a decision to pay a dividend, including ensuring there are sufficient distributable profits. However, paying a dividend can often result in significant tax savings.

Giving to charity

To encourage charitable giving, the government has created a number of ways of securing tax relief on charitable donations. Gift Aid is the most common method and applies to cash charitable donations large or small, whether regular or one-off. The charity currently claims basic rate tax of 20 per cent back from HMRC plus a further 2 per cent supplement.

For the individual donor who is a higher rate tax payer, a cash gift of £78, (£100 for the charity due to 22 per cent rebate) only costs £58.50, due to the additional 20 per cent tax relief of £19.50. Always remember to keep a record of any gifts you make.

It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.

Individual Savings Accounts (ISAs)

ISAs are a tax-efficient form of investment and income and capital gains are tax exempt. Maximum annual limits apply so to take advantage of the limits available for 2010/11; the investment(s) must be made by 5 April 2011. The rules allow a maximum investment in one cash ISA of £5,100 or a stocks and share ISA of £10,200. However, if you want to invest in both, then the investment should be capped so that overall you do not exceed the £10,200 limit. 16- and 17-year-olds are able to open a cash ISA only.

Pensions

There are many opportunities for pension planning but the rules can be complex in certain circumstances. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes.

Tax relief for further contributions is available on up to 100 per cent of earnings as long as this does not exceed the annual allowance (currently £255,000). Earnings include pay, benefits and trading profits and are generally referred to as 'net relevant earnings'.

The rules include a single lifetime limit (£1.8m for 2010/11) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. In last years Emergency Budget, the government announced the reduction of the annual allowance to £50,000 with effect from 6 April 2011.

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Inheritance Tax

Isn't it time you assessed your estate's potential liability?

In the event of your premature death, unless you plan carefully your family could end up paying a sum in Inheritance Tax (IHT). Have you recently assessed your potential liability to IHT? If so, and you have a potential liability, have you planned to reduce it? We can help you ensure that more of your hard-earned assets go to the people you want them to rather than falling into the hands of the taxman.

IHT facts

If you are single or divorced, current UK legislation allows the first £325,000 (2010/2011 tax year) of your estate to be free from IHT, or £650,000 if you are married or have entered into a civil partnership or are widowed (providing no previous gifts were made by the deceased spouse). Under current legislation the taxman could take 40 per cent of everything you leave over the threshold (known as the nil rate band) and this includes properties, personal effects, cars, savings, investments and insurance – collectively known as your estate.

There is a range of allowances that you can use to mitigate a potential IHT liability. The major ones are as follows:

Annual Exemption – everyone is entitled to give away £3,000 exempt from IHT in any one tax year. If not previously used, then this allowance can be backdated one tax year, so in

effect £6,000 could be given per donor to begin with, thereafter £3,000 per annum (optional).

Marriage Gifts Exemption – each parent can give wedding gifts of up to £5,000 to each of their children. Grandparents can gift up to £2,500 to each grandchild. Also, you can give up to £1,000 as a wedding gift to anyone else. These gifts must be given before the wedding day. You can make gifts utilising more than one of the above allowances to the same person.

Small Gifts Exemption – any number of gifts to different people up to a value of £250 each can be made in a tax year. If the total value of gifts to any one person exceeds £250, then all gifts to that person must be deducted from the £3,000 Annual Exemption mentioned above. All of the above have the effect of reducing the estate upon which the IHT can be levied.

In most cases, any direct gift amount made either direct or into an absolute trust by any

one person over the exempt gift allowances is a Potentially Exempt Transfer (PET). This means that you, as the donor, need to live for seven years from when the transfer is made for the gift to fall outside your estate. During the seven-year period the amount of tax payable on death reduces each year. This is known as 'taper relief'. However, this relief applies only to the part of a gift that is in excess of the nil rate band.

Gifts to Trust – this method allows the placement of monies in a suitable investment and then this is wrapped within a trust, of which you and other people of your choosing can be trustees. The monies remain in trust and all, or amounts of this, can be distributed when you choose.

Life Assurance Policy – this is used to insure the liability with a 'whole-of-life policy'. Under some circumstances, this can be a cost-effective way of providing for the eventual bill and can be reasonably simple to set up. The 'whole-of-life policy' has a sum assured which is paid to the beneficiaries on death; due to the fact it is written under an appropriate trust, it can be paid prior to the rest of the estate being released and can, therefore, be used to contribute towards or pay for the IHT bill for the estate.

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.





Savvy ISA returns of the year

Will you be rushing to use up your tax-efficient allowance?

As the 5 April Individual Savings Account (ISA) deadline approaches, every year there is a flurry of last-minute activity. But why leave it to the last minute? We can help you make an informed decision and ensure you take advantage of using your full ISA allowance.

In this current 2010/11 ISA season, the new limit increased to £10,200 for everyone, so it makes sense to make the most of your tax-free allowance.

ISAs are tax-efficient, meaning the interest you earn is exempt from UK Income Tax and Capital Gains Tax. The tax treatment depends on your individual circumstances and may not be maintained in future.

To open an ISA you must be aged 16 or over and a UK resident or Crown

employee serving overseas, or married to or a civil partner of a Crown employee serving overseas.

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Take full advantage of using your ISA allowance

ISA Option	Total ISA investment allowed in the tax year 2010/11
Cash ISA only	£5,100 maximum in a Cash ISA
or	
Stocks & Shares ISA only	£10,200 maximum in a Stocks & Shares ISA
or	
Cash ISA and & Shares ISA	No more than £5,100 in Cash ISA and the balance in the Stocks & Shares ISA up to a combined total of £10,200

As we count down to the end of the tax year, investors begin the search for the best place to put their ISA money. To find out how we could help you to make the right decision for your ISA money, contact Andrew Ford on 01565 756199 or email andrew@multiplex.org.uk

Is your retirement clock ticking?

Steps you can take to catch up on a shortfall

If you are in your fifties, pension planning has never been so important, which is why there are a number of steps you should take to improve your pension prospects if you discover you have a shortfall. Planning for retirement is one of the biggest financial challenges people face and the one you can least afford to get wrong.

In the final ten years prior to your planned retirement date, to begin with you need to calculate what you are worth. As a starting point establish what your likely state pension entitlement will be. You should also contact the pension trustees of your current and previous employers, who will be able to provide pension forecasts, as will the companies managing any private pension plans you hold.

Next you need to look at how much income you will need in retirement. It's important to be realistic. You may spend less if you are not commuting to work, but don't forget to include holidays, travel and any debts you may still have.

If you are currently on target to receive less than you will need, you should obtain professional advice about how you could make up a shortfall. During the final ten-year period in the run-up to your retirement, it's crucial that you maximise savings. This may not only mean contributing to pensions but into other investments that may include Individual Savings Accounts (ISAs). You also need to consider whether options such as retiring later or working part-time beyond your retirement date may be a more realistic way of meeting your retirement goals.

It is not only how much you save but where it is invested that can make a difference, so you should also review your investment strategy. Use this opportunity to carry out an audit of existing pension plans; look at where they are invested, how they have performed and what charges are levied on them. Don't forget also to find out whether there are guarantees on any plans.

As part of your review, look at the diversification of your assets, as this can help protect against sudden market movements. With a ten-year time frame, investors need to weigh up the risks of equity investments against safer cash-based products.

Generally, the nearer to drawing your pension you are, the less investment risk you should take.

But over this period it is reasonable to include equities within a mixed portfolio, particularly given the very low returns currently available on cash. Bonds, gilts and some structured products may also provide a halfway house between cash and equities.

When you enter the next phase of your retirement planning – five years or less to go – you need to review your specific retirement goals. Obtain up-to-date pension forecasts and review your retirement plans.

Consider moving stock market-based investments into safer options such as cash, bonds or gilts. If there is a sudden market correction now, you may have insufficient time to make good any losses.

If you've lost details of a pension scheme and need help contacting the provider, the Pension Tracing Service may be able to help you trace 'lost' pensions and other investments.

It's also important to maximise savings. Save what you can, utilising pensions, ISAs and other investments. Also don't forget to consider your spouse's pension. If you have maximised your pension contributions it is also possible to contribute into a partner's pension plan.

Higher earners and those in final salary schemes should ensure any additional pension savings do not exceed the lifetime allowance, as this could mean you end up having to pay a tax bill.

Don't leave it until the last minute to decide what you will do with your pension plan. Some people fail to consider their options properly and simply buy the first annuity offered by their pension provider. This can significantly reduce your income in retirement and there is no second chance to make a better decision.

There are now many more retirement alternatives, from investment-linked and flexible annuities to phased retirement options, as well as the

conventional annuities and income drawdown plans. To find out what is most appropriate for your particular situation, you should obtain professional advice.

We can work with you to develop the right strategy to accumulate wealth in order for you to enjoy your retirement years – to find out more, please contact Paul McKinney on 01565 756199 or email paul.mckinney@multiplex.org.uk

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Self-Invested Personal Pensions

A pension wrapper that offers more freedom of choice

Self-Invested Personal Pensions (SIPPs) have been around since 1989, but after the introduction of Pension Simplification legislation on 6 April 2006, they've become more accessible.

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a SIPP could be the retirement planning solution to discuss with us.

What is a SIPP?

A SIPP is a personal pension wrapper that offers individuals more freedom of choice than conventional personal pensions, however they are more complex than conventional products and it is essential you seek expert professional advice.

They allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.

Individuals have to appoint a trustee to oversee the operation of the SIPP, but having done that the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

How much can I contribute to a SIPP?

Many SIPP providers will now permit you to set up a lump sum transfer contribution from another pension of as little as £5,000, and while most traditional pensions limit investment choice to a short list of funds, normally run by the pension company's own fund managers, a SIPP enables you to follow a more diverse investment approach.

Most people under 75 are eligible to contribute as much as they earn to pensions, including a SIPP (effectively capped at £255,000 each tax year). For instance, if you earn £50,000 a year you can contribute up to £50,000 gross (£40,000 net) into all your pension plans combined in the 2010/11 tax year.

If your total annual income has reached £130,000 since April 2008, you may experience further restrictions on the amount you can contribute and obtain higher or additional rate tax relief.

The earnings on which you can base your contribution are known as Relevant UK Earnings. If you are employed, this would generally be your salary plus any taxable benefits. If you are self-employed, this would normally be the profit you make (after any adjustments) for UK tax purposes.

Even if you have no Relevant UK Earnings, you can still contribute up to £3,600 each year to pensions. Of this the government will pay £720 in tax relief, reducing the amount you pay to just £2,880.

Can I transfer my existing pension to a SIPP?

Before transferring to a SIPP it is important to check whether the benefits, such as your tax-free cash entitlement, are comparable with those offered by your existing pension. Make sure, too, that you are aware of any penalties you could be charged or any bonuses or guarantees you may lose.

If you have had an annual income of £130,000 or more since April 2007 and make regular contributions to a pension, changes announced in the 2009 Budget could affect you. Switching regular contributions to a new pension may mean future regular contributions are subject to a £20,000 limit.

A SIPP will typically accept most types of pension, including:

- Stakeholder Pension Plans
- Personal Pension Plans
- Retirement Annuity Contracts
- Other SIPPs
- Executive Pension Plans (EPPs)
- Free-Standing Additional Voluntary Contribution Plans (FSAVCs)
- Most Paid-Up Occupational Money Purchase Plans

Where can I invest my SIPP money?

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

With a SIPP you are free to invest in:

- Cash and deposit accounts (in any currency providing they are with a UK deposit taker)

- Insurance company funds
- UK gilts
- UK shares (including shares listed on the Alternative Investment Market)
- US and European shares (stocks and shares quoted on a Recognised Stock Exchange)
- Unquoted shares
- Bonds
- Permanent interest bearing shares
- Commercial property
- Ground rents in respect of commercial property
- Unit trusts
- Open-ended investment companies (OEICs)
- Investment trusts
- Traded endowment policies
- Warrants
- Futures and Options

Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

Why would I use my SIPP to invest in commercial property?

Investing in commercial property may be a particularly useful facility for owners of small businesses, who can buy premises through their pension fund. There are tax advantages, including no capital gains tax to pay, in using the fund to buy commercial property.

If you own a business and decide to use the property assets as part of your retirement planning, you would pay rent directly into your own pension fund rather than to a third party, usually an insurance company.

Ordinarily, a business property will, assuming that its value increases, generate a tax liability for the shareholders or partners. Unless, that is, you sell the property to your SIPP. Then the business can pay rent to your pension fund, on which it pays no tax, and any future gain on the property will also be tax-free when it is sold.

What are the tax benefits of a SIPP?

There are significant tax benefits. The government contributes 20 per cent of every gross contribution you pay – meaning that a £1,000 investment in your SIPP costs you just £800.

If you would like to discuss your retirement planning options, please contact Rob Cresswell on 01565 756199 or email rob.cresswell@multiplex.org.uk

When you will be allowed to retire

The coalition government's intent to speed up the process

The age at which you could claim your state pension benefits had for many years been 65 for men and 60 for women. But the previous Labour government set out plans, based on recommendations from Lord Turner, to steadily increase the state pension age to 68 for both men and women over the next four decades.

The Labour government's policy had been to raise the state pension age to 66 by 2026 and then incrementally to 68 by 2046. Retirement was due to equalise for men and women at 65 by 2020, rise to 66 between 2024 and 2026, 67 between 2034 and 2036, and 68 between 2044 and 2046.

In May last year, the new coalition government initially signalled its intent to speed up the process, bringing forward the first rise to 66 for men from 2026 to 2016. In the end, the Comprehensive Spending Review in October 2010 settled on a less radical option, confirming that the rise to 66 for both men and women would come by 2020.

The government has said it will have to raise the state pension age even higher in following years, which could see many Britons working today waiting until age 68 or even 70 before they receive their state pension. It had been expected that the women's state pension age would rise to 65 by 2020. It will now move to 65 by 2018 and then be hiked to 66 (same as men) by 2020.

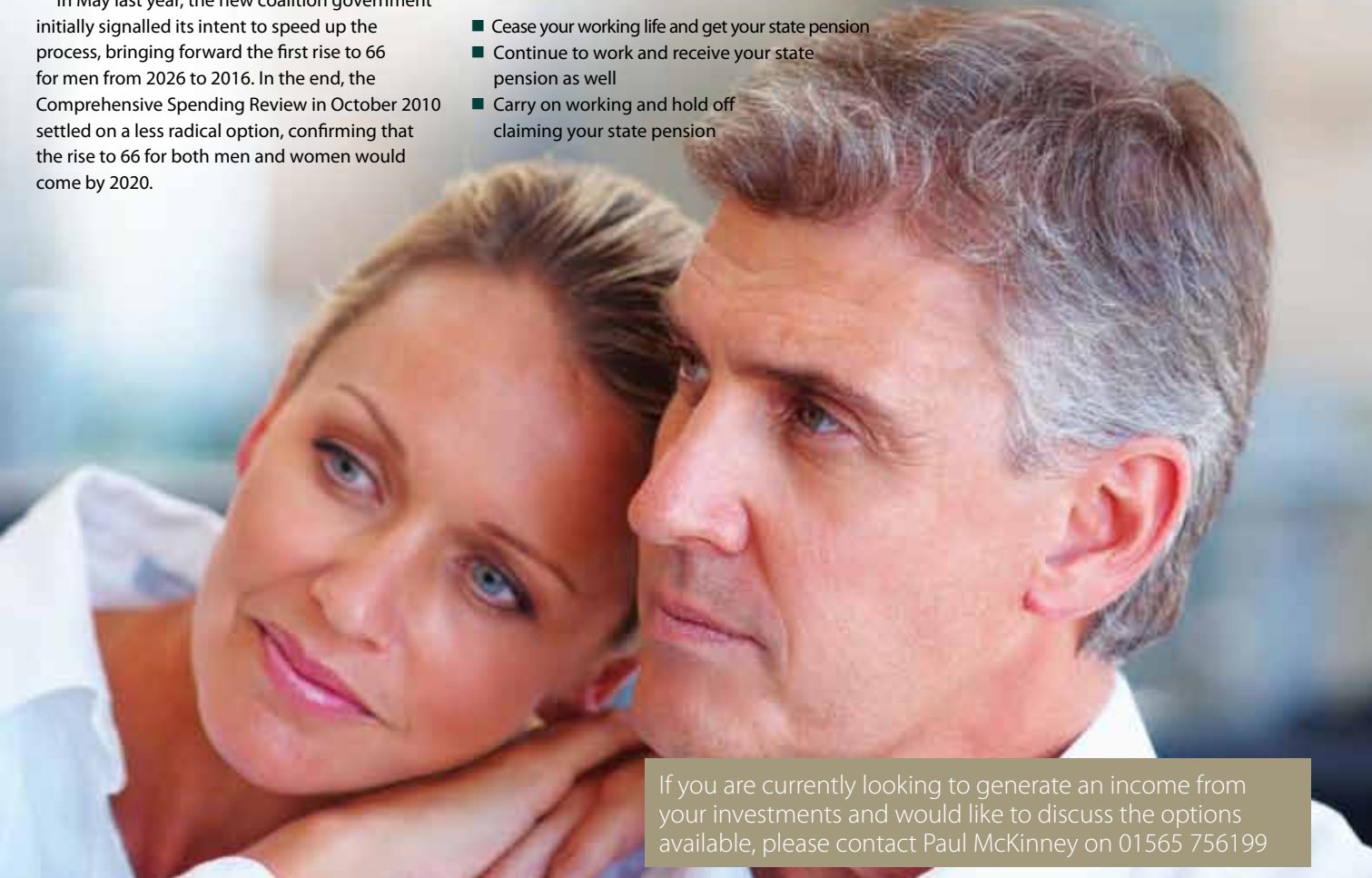
Decisions, decisions, decisions

When you reach the state pension age, you essentially have three choices:

- Cease your working life and get your state pension
- Continue to work and receive your state pension as well
- Carry on working and hold off claiming your state pension

If you postpone claiming your state pension, you may receive an extra state pension when you do finally decide to claim it. And you can put off taking it for as long as you like.

When you do eventually decide to take your state pension, you can choose to receive either the extra state pension for the rest of your life, or receive a one-off, taxable lump-sum payment, equivalent to the benefits you put off claiming plus interest, as well as your regular weekly state pension. In addition, you can choose to stop claiming it after having claimed it for a period.



If you are currently looking to generate an income from your investments and would like to discuss the options available, please contact Paul McKinney on 01565 756199

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