

Please contact us to help you explore the personal impact of this issue's topics.

We also look forward to hearing from you soon on any broader financial planning or investment issues.

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Group Income Protection for Equity Partners

A Group Income Protection policy provides income benefits that reimburse members for part of their income in the event of being unable to work and suffering loss of earnings through long-term illness or injury. The benefit will be paid on acceptance of a valid claim after a specified deferred period of 13, 26, 28, 41 or 52 weeks following the first date of incapacity.

A Group Income Protection (GIP) policy can be set up exclusively for Equity Partners or for Equity Partners and Staff. The maximum benefit for an Equity Partner GIP is 50% of the Equity Partners' net income from the firm averaged over the last 3 years (or for however long the partnership has been in business if less than 3 years). Some insurers can also provide additional expenses cover in respect of the Equity Partner's share of the partnership's total costs of running the business for up to 3 years (the cost will be averaged over the previous 3 years).

Each Equity Partner (taxed under Schedule D) pays for their own cover but all premiums are paid by the partnership together in one payment. Under current HMRC practice, benefits payable to Equity Partners will not be taxed, however, premiums are not an allowable expense.

Group Income Protection policies with more than 5 members are usually offered a Free Cover Level (FCL) which is the threshold of insured benefit below which no evidence of health is required provided that members are 'Actively at Work' on commencement and join at their first opportunity. Any benefits required in excess of the FCL will be subject to evidence of good health.

The key advantages of Group Income Protection policies over Individual Income Protection Policies are:

- Risk is spread across a group of members, therefore the cost of cover per individual tends to be far less than individual policies.
- Insurers usually offer a Free Cover Level for policies with more than 5 members which can substantially reduce the need for evidence of good health. Evidence of good health is usually mandatory for individual policies.
- A Group Income Protection policy can be set up exclusively for Equity Partners, or for Equity Partners, Salaried Partners and or Staff, which can result in further reductions in cost.

Changes to Pension Drawdown Rules

New pension rules will be introduced as part of Finance Act 2011, taking effect from 6 April, with Unsecured Pension (USP) being replaced by 'Drawdown Pension' (DP) and Alternatively Secured Pension (ASP) being abolished completely, alongside the requirement to buy an annuity at age 75.

DPs will be available in two forms: 'capped drawdown' and 'flexible drawdown'. Capped drawdown will be similar to USP, i.e. income withdrawals based on the Government Actuary's Department (GAD) tables. However, the maximum will be 100% of GAD (currently 120% of GAD), so pension members may experience a reduction in their maximum pension from their next drawdown review date. No minimum withdrawal will apply at any age.

The maximum withdrawal under capped drawdown must be reviewed every three years up to age 75 and yearly thereafter. Currently, this is every five years pre-age 77 and every year thereafter. The new GAD tables will incorporate rates for ages beyond age 75 (currently the member is always deemed to be age 75 under ASP), so the adverse effect of 'mortality drag' should reduce, compared to current ASP rules.

An interesting planning opportunity is the use of accelerated 'flexible drawdown', subject to the member meeting a secured 'minimum income requirement' (MIR). This means that unlimited drawdown will be possible, subject to tax at the member's highest marginal rate. As a condition, no further pension contributions can be made to any pension arrangement.

The MIR level of £20,000 can be made up of state pensions, annuities or occupational

pensions guaranteed for life. This opens up the opportunity for a SSAS or SIPP to secure a 'Scheme Pension' with part of the fund value to satisfy the MIR, which would then allow unlimited withdrawals based on the rest of the fund.

Scheme Pensions are normally calculated by an Actuary and must be fixed and payable for life, taking into account age, interest rates, sex and life expectancy. This means that a member's lifestyle and medical history can be taken into account, in the same way as impaired life or enhanced annuity. Once set, a scheme pension cannot be reduced except in very limited circumstances.

Flexible drawdown may well increase the attractiveness of pension planning generally, when linked with the abolition of the 'age 75' rule and new £50,000 contribution limit, with carry forward of unused relief and up to 50% marginal rate tax relief.

End of Tax Year Savings

With many clients now likely to be facing a higher income tax bill, don't forget to make the most of tax favoured investments before the end of the tax year:



- Pensions – maximise contributions but remember to check whether caught by anti-forestalling legislation and when the pension input period ends
- Individual Savings Accounts – ensure the 2010/11 ISA allowance of £10,200 per person has been fully utilised
- Enterprise Investment Schemes – £500,000 per tax year with 20% tax relief (but can only reduce the tax bill to zero)
- Venture Capital Trusts – £200,000 per tax year with 30% tax relief (but can only reduce the tax bill to zero)

Tax Year End Inheritance Tax (IHT) Thoughts

With the nil rate band frozen at £325,000 until at least 5 April 2015, it is even more important that clients make the use of the IHT exemptions available. Everyone has an annual exemption of £3,000 and this can only be carried forward for one tax year. Utilising this yearly is an effective method of passing wealth down the generations. Unlimited gifts of £250 can be made as long as no other gifts are made to the same people in the same tax year. Longer term transfer of wealth can be considered with the regular gifts out of surplus income, perhaps to a savings plan written under discretionary trust.

Why does inflation matter?

Inflation is a very topical subject but what impact does it have on clients looking to invest? We asked one of our Discretionary Fund Management partners, Seven Investment Management to give their views

Why do we invest? To maximise our future wealth, of course; but why really? For many, it's to provide enough income for a comfortable retirement and to secure our children's futures. This puts inflation at the heart of long-term planning: £1 today will buy less tomorrow, so that its purchasing power in real – i.e. inflation adjusted – terms will gradually diminish. That's what tempts us to take investment risk: to hold stocks, bonds, property rather than keep our cash under the mattress. It's vital that a long-term portfolio contains enough assets that can provide real-terms growth in capital or income – usually balanced with enough secure assets that can help us to manage risks, but might not maintain long-term spending power (e.g. cash and bonds). Many investors choose to hold not only equities and property, but also assets like commodities, gold or timber, and more directly inflation-linked assets, such as index-linked gilts, to help protect themselves against long-term inflation.

Inflation can spring shocks over the shorter-term too. Markets respond not just to the long-term evolution of inflation, but to shorter-term fluctuations through the economic cycle. The impact of inflation on asset markets is too complex to explore fully here, but we can draw out some themes. In countries where an independent central bank sets interest rates to meet an inflation target – e.g. the UK – higher inflation can often lead to higher interest rates, to dampen growth and therefore reduce inflationary pressures. As a rule, equity markets will tolerate, perhaps welcome, modest inflation, if it means that companies have pricing power and can grow revenues; inflation in companies' input costs – commodities or wages – if not matched by inflation in selling prices, could be more problematic, putting profit margins

under pressure. Research suggests there could be a "sweet spot" for inflation, with equity markets tending to trade at higher valuations when inflation is in the low single digits: too high, and the risk of aggressive interest rate rises or economic volatility may depress equity valuations; too low, and the spectre of deflation appears, also undermining equity valuations.



For bonds, the situation may be clearer: generally, inflation is poisonous to bonds – to conventional government bonds particularly, with fixed interest payments and a fixed redemption price – as the real value of their fixed cashflows is eroded. Conversely, deflation can raise bond valuations, as the fixed cashflows gain value in real terms. Deflation may be good, but only to a point; if excessive deflation generates uncertainties over whether the borrower can service the bond – Greece and Ireland spring to mind – valuations could fall to increase the yield despite deflation.

We believe the key for investors is to build portfolios able to manage the risks from higher or lower inflation – and indeed from other global risks, with a robust and diversified allocation across a range of asset classes.