

INSIGHT

Origen Financial Services' E-bulletin for Professional Firms

March 2010

Pensions at retirement - covering the shortfall...

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Long term care

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(read more...)

About Origen Financial Services

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Pensions at retirement - covering the shortfall...

Earlier this year, the financial press led with a story that pension incomes have fallen 72% in the last 10 years¹.

In 2009 we saw annuity rates in general fall by 8%, one of the largest drops since 2002². A significant reason for this was the drop in Gilt yields caused by the Government's policy of quantitative easing. The outlook for the foreseeable future is not one of improvement, especially with the potential EU legislation under 'Solvency II' on the horizon.

However following more recent rises in Gilt yields, some commentators suggest we may actually see an increase in rates this year.

We believe that overall, annuities can still offer value for money and enhanced or impaired annuities in particular can be very attractive. The market is fluid as many providers are moving towards individual underwriting, with annuity pricing affected by factors beyond direct health issues, such as post codes.

We have a particular expertise in this area with over 40% of our annuity business completing on enhanced terms to standard rates during 2009.

This is a growing and evolving market with the average pension pot likely to increase and more people looking for greater flexibility in how retirement income can be delivered. This will bring a new age of innovation with blended solutions designed to meet lifestyle needs with conventional annuities remaining a fundamental foundation in retirement.

As an advice-led, whole of market champion Origen Retirement Solutions will be at the forefront of this innovation.

⁽¹⁾ Source: www.telegraph.co.uk. 09 February 2010)

⁽²⁾ Source: www.thisismoney.co.uk 18 January 2010)

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End of tax year but with a difference

It might be easy to pass by the usual articles from tax and financial practitioners that appear this time of year about end of tax year planning. This year there are some changes to our old favourites:

ISA: For anyone over 50, the limit has been raised to £10,200, although this only took place in October – and was announced in the Budget, which featured in this tax year. There may be a number of eligible investors, who have not yet made their full subscriptions – but should do. We are also delighted that the Maxi-, Mini- prefixes have been dropped, although the main principles are largely intact.

Pensions: High earners (£130,000+) should now be very familiar with the Government 'Anti-forestalling' measures. As the maximum tax relief will drop to only 20% for those on 'high incomes' from April 2011, it is important to make full use of any 'protected pension input' in the current tax year. Higher rate tax relief will continue to apply to pension savings of £20,000 per annum or the 'protected input' if higher for regular pension savings. This special annual allowance can be increased up to £30,000 where irregular pension payments have been made within the last three tax years; investors should seek to take advantage, whilst we wait to hear whether 50% tax-payers will be eligible for the full relief for 2010/11.

Change to minimum retirement age: Aged between 50 and 55 on 5 April and want to draw your benefits? Unless you receive your pension benefits from your pension plan before 5 April 2010, you will generally have to wait until age 55. In that event, bringing forward 'retirement' may mean that in the short term, you need to use investments other than your pension funds to maintain your lifestyle.

2009/10 tax point: For higher earners – and these fall into two bands in relation to a hike in tax rates: £100,000 'net adjusted income' and above £150,000 taxable income - you should consider bringing forward your tax point to the current tax year. All good accountancy firms have given similar guidance to their clients on salary and dividends but this also applies to deposit accounts and insurance bonds, if held. Simply closing or encashing before 6 April 2010 will crystallise the tax charge in the current period, but be wary of any penalties or additional charges associated with this – a transfer or assignment to a spouse / civil partner within a lower income tax band may avoid the need for this action in any event.

We have put together a comprehensive guide for clients concerned with any of these aspects, which provides case studies and further action points on matters such as Enterprise Investment Schemes, Venture Capital Trusts and gift aid.

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Having famously refused to attend the first conference on the matter, Andrew Lansley, Shadow Health Secretary, has promised to join the next one hosted by Care UK.

Care groups appear to share the Government's preferred option of an inheritance levy, which should create greater consistency of care and charges, but this will be a tough 'sell' for the Government with the General Election looming. The likely outcome appears to be a 'voluntary' tax for those who have needed care – residential costs are not contained within the debate – but where does this leave us?

We can lobby for improvements on care and charges, of course, but it is highly unlikely that anyone receiving, or in imminent need of residential or domiciliary care, will benefit from any of the proposed options. Receiving the best possible care at the best cost, whilst not depleting the estate, appears to be the most favoured outcome for families. It is highly improbable that a single adviser or agency is able to achieve all of these objectives, without working with others.

We have specially trained consultants who are used to working with legal advisers and who understand the scope of their responsibilities in mapping out the best possible outcome for their clients. Our consultants are familiar with the Department of Health's Charging for Residential Accommodation Guide (CRAG) and issues relating to deprivation of capital, and will explain all of the available options, such as:

- Pre-funding
- Immediate care planning, including annuity-based options
- Re-arranging investments to meet care fees, whilst maximising tax efficiency
- Equity release
- State benefit entitlements and means testing

From a financial planning perspective, long term care plans are recognised by the FSA as a 'protected area', although not all IFAs tend to see it this way. Any IFA practising in this area should hold the CF8 (Long Term Care Insurance) qualification and either hold ER1 (Equity Release) or have access to an ER1-qualified adviser.

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Endowment plan – traffic light letter

In the last few months many insurance companies have been sending out their 'traffic light letters' to policyholders. The projections are becoming increasingly bleak, so are there any options that might make an earlier decision to repay the mortgage with an endowment policy any more palatable?

We have come across a large number of clients who have hung on to their mortgage endowment plans in the hope of maintaining often valuable life cover and reasonable maturity values and in the knowledge of penalties on an early surrender (an open market sale is an alternative).

A possible solution might be to make an 'in specie' contribution of the open market value of the policy to a Self Invested Personal Pension (SIPP), thereby grossing up the plan 'value' through tax relief. Better still, having the SIPP buy the policy for cash. There would be no capital gains tax charge and no stamp duty as these are qualifying policies at entry in to the SIPP and in a 'tax free' environment at subsequent maturity or earlier surrender.

In the meantime, premium costs can be diverted as pension contributions, again creating tax relief at the highest marginal rate and are then used to maintain the policy. As endowment policies were typically set up with maturity terms of 25 years or less, it is highly unlikely that any of these will benefit from Life Assurance Premium Relief (LAPR), which was withdrawn 26 years ago in March 1984.

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Non-resident? Make sure that pension arrangements do not make the UK 'the centre of gravity of life and interests'

The Court of Appeal recently upheld a £30 million retrospective tax charge on businessman Robert Gaines-Cooper who claimed he was not domiciled in the UK as he had lived in the Seychelles for over 30 years.

Judges ruled that the UK was still 'the centre of gravity of his life and interests' despite the fact that Cooper had adhered to the guidance of IR20 and spent no more than 91 days a year in the UK since he moved abroad. The Court of Appeal found he still had assets linking to the UK, including his pension.

As part of the 2006 A-day reforms, offshore pension rules were liberalised to help UK expatriates move their pensions abroad to be taxed in their new country of residence. Qualifying Recognised Overseas Pension Schemes (QROPS) can be used to make significant tax savings but benefits must mirror the overriding pension regulations in the UK – and reporting continues for the first five years of non-residence. Most benefits should be taxable in the new jurisdiction, although tax rates may be less than in the UK, and around 70% of the fund must be used to provide an income for life.

While there are over 2,000 schemes approved by HM Revenue & Customs (HMRC), some are run better than others; HMRC famously de-listed all of Singapore's QROPS schemes in 2008, after reports of mis-selling, and has recently forced Gibraltar to reform its QROPS tax rules.

With such a crucial ruling being found against non-residents, it is imperative that suitable independent financial advice is available to sift through the good, the bad and the ugly of QROPS options – whilst you resolve the issues of schooling, spouse's residence, business interests...

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This Bulletin is purely for information and the content is not intended to be taken as investment advice. It is always recommended that independent investment advice should be sought before any action is taken in relation to tax planning or investment.

No action must be taken or refrained from based on the contents of this newsletter alone. Accordingly no responsibility can be assumed for any loss occasioned in connection with the content hereof and any such action or inaction.

Equity linked investments do not generally contain guarantees, which means that the value can go down as well as up and they should be invested for the medium to long term. The tax treatment of investments can change with alterations to legislation and the extent to which investors may be advantaged or disadvantaged, depends upon their individual circumstances.

References to 'spouses' apply equally to Registered Civil Partners.

This bulletin is for general guidance only and is based on our understanding of current legislation, HMRC practice and tax laws. New regulation and products are being introduced all the time. We accept no responsibility for any action taken as a result of this bulletin. An individual should seek independent financial advice about his/her own circumstances.

About us

Origen Financial Services is one of the UK's leading Independent Financial Advisors and Employee Benefits Consultants, with over 250 employees located in offices nationwide. 350 000 private clients, 6000 small and medium sized corporate clients and over 70 of the largest organisations in the UK retain us as their consultant.

In order for clients to receive truly holistic financial planning advice, we understand that complementary tax or legal advice is also required – and that this is equally true in reverse. Leaving a client to seek financial advice independently or to leave a gap in their financial planning will not provide the best service available to them. Collaborative advice allows you to extend the services you offer, creating additional value to your current and prospective clients.

Aligned to our history of advising within the professional services market, our Members Club was founded to provide an increased level of engagement with our professional partners and to deliver a complete advisory service to our mutual clients.

Advice we offer

Private clients

Advice to private clients focuses on holistic or specific financial planning and includes:

- Family protection in the event of death, illness or medical expense
- Inheritance tax planning solutions
- Pre-retirement planning, including pensions
- At retirement planning, including pension income options
- Investment strategies
- Planning for the elderly
- Financial planning around divorce
- Wealth solutions and tax efficient investments

Trustees

We work closely with Trustees to ensure compliance with the Trustee Act 2000. Our advice encompasses:

- Asset allocation and investment advice
- Risk management
- Trustee training
- Tax and 'wrapper' planning

Corporate clients

Advice to corporate clients includes:

- Employee benefit design, implementation and management
- Benchmarking of employee benefits
- Total reward statements and flexible benefits
- Business protection – keyperson, shareholder and partnership assurance
- Corporate investments
- Succession planning
- Exit strategies for owner managers
- Employee communication strategies
- Redundancy and retirement counselling

Self-administered pensions

We are an expert in self-administered pensions, offering whole of market solutions for Self Invested Personal Pensions (SIPPs) and Small Self Administered Schemes (SSASs). This enables us to provide comprehensive retirement planning for individuals and owner managers, including commercial property purchase.

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