

Financial Planning Report

Prepared for

Mr & Mrs A Client



Prepared by

An Adviser Cert PFS

Independent Financial Adviser

6/4/2010

Introduction and basis of advice

Your financial affairs have now been analysed, and my advice is set out below. I am, of course, authorised to advise on all areas addressed in this report, and the recommendations that follow are based on my understanding of your current financial position and objectives. I would ask that you read the report carefully and check that it matches your financial position, priorities and attitude to risk.

It is important that you understand my advice. You should read this report in conjunction with the relevant illustrations, commission disclosure and Key Features documents, which all provide important information about the product or products being recommended. You should read these documents carefully and contact me if you have any queries concerning them or the advice in this report. I would like to draw your particular attention to the sections on charges, cancellation rights and "risk factors", that highlight any possible disadvantages in effecting the recommended product. I do stress that if you do not understand any of the information contained within the Key Features document or this report then please contact me as a matter of urgency. You have also been provided with a copy of our Client Agreement, and the "Key Facts About our Services" and the "Key Facts about the Cost of our Services" documents. These explain my status as an Independent Financial Adviser, the services we offer, how we are remunerated, and the information about you that we store in our records.

If you believe that the information in any of the documents provided is incorrect, please let me know as soon as possible. I would mention that if any information has not been disclosed, it is possible that the advice given may not take account of all your personal requirements.

Regular Reviews

It is vitally important that we regularly review your existing and any newly recommended investments and financial products; as the values may fluctuate, meaning that you might not have the required risk diversification if left unchecked. Also, as your circumstances change your attitude to risk will almost certainly change as well. To this end I suggest that you contact me at least once a year to review your financial affairs and objectives.

Attitude to Risk

Before any recommendations are put forward, it is imperative that a client's attitude to risk is clearly defined. My company classifies attitude to risk as follows, and your individual risk profile for the stated objective can be found below:

Very Cautious

You are only willing to put a small part of your capital at risk. To this end you prefer to invest the majority of your capital in deposit based accounts, where your capital is

protected. You accept that the future purchasing power of your capital could be reduced by the effects of inflation over the medium term

Low

Investments in this area are designed to provide a relatively stable and conservative level of growth and / or income. In return for the opportunity to earn more than from your deposit type investments, you are willing to accept a low risk of capital loss.

Balanced

You prefer to invest in broad range of core stock-market linked investments, where the overall returns achieved are more closely linked to the performance of the underlying assets. In so doing, this will provide you with the potential to benefit from real capital growth. However, you should be aware that investment values will fluctuate according to market conditions.

Adventurous

You prefer to invest in more specialised stock-market linked investments, in return for the potential for increased capital growth. Again, investment values will fluctuate according to market conditions, however, these fluctuations will be more pronounced.

Speculative

You are willing to obtain considerable exposure to individual equities, or highly specialised investments, in return for the potential to receive significant returns. In so doing you understand that you risk losing the invested capital.

Summary of current position & objectives

Please find below a summary of your current position:

Name	Mr A Client	Mrs A Client
Date of Birth	01/01/1940	2/2/1942
Marital Status	Married	Married
Number of Financial Dependants	3	
Occupation	Retired	Retired
Employment Status	Retired	Retired
Tax Status	Basic rate tax payer	Basic rate tax payer
Monthly Net Income	£2,000	£2,000
Monthly Expenditure	£2,000	

Smoker	No	No
State of Health	Good	Good

I understand from our discussions that you have been less than impressed by the performance of your NPI With Profit bond. Although you are not one to make any knee jerk reactions, having read an article in the Sunday papers, you are keen to receive my thoughts on whether this investment should be retained. I understand that you are also conscious that there would be a sizeable Inheritance Tax liability due on your estate, and as such you are keen to seek my advices as to how this liability could be mitigated.

In summary, you have specifically requested that I focus my advice on the following:

- A review of your existing Investment Bond with NPI to ensure it is performing satisfactorily and continues to meet your needs and objectives and reflect your stated risk profile
- Estate planning and the mitigation of Inheritance Tax on your death

Attitude to Risk – Low / Balanced

You have specifically requested that I focus my advice on the above. The advice is based on the information provided by you, and solely aims to address the highlighted objective. It is possible that had I undertaken a full review of your financial affairs, at this time, other needs and shortfalls may have been identified. However, you do not wish me to discuss or provide advice in relation to any other area of need that may exist at this time. Therefore, I cannot accept responsibility for any other need or information which has not been discussed or disclosed which could impact upon this advice. Nor, unfortunately, can I comment on the suitability of this advice in relation to your overall circumstances.

Remuneration

On this occasion we have agreed that I will be remunerated via commission, payable by the recommended product provider, rather than directly from you. The amount of commission payable is highlighted in the illustration provided.

Aspects of your financial affairs not addressed but deemed important

I practice a *holistic* approach to financial planning. I believe it is my duty to ensure all aspects of a client's financial affairs have been addressed, even those potential shortfalls that may not be of immediate concern to the individual client concerned. To this end, I would like to take this opportunity to draw your attention to the following. On further consideration, should you want to discuss any of the below in more detail please do not hesitate to contact me.

Long term care

- We have concluded that you have sufficient income and capital to cover the costs of any care should this be required in the future

Wills and Lasting Power of Attorney

- I understand you have made a Will. I do stress the importance of keeping your Will up to date, and as such, ensuring your estate passes in accordance with your wishes.
- I have recommended that you effect a Lasting Power of Attorney (LPA). This will ensure your financial affairs will be looked after by someone you trust if you cannot do so yourself. In such a scenario, having a LPA in place avoids the significant cost and delays associated with applying to the Office of the Public Guardian

Mortgage Repayment

- You have repaid your mortgage in full

Review of existing NPI Investment Bond

Please find below a review of your existing investment with NPI. For further information concerning the following investment, I refer you to the section entitled *Notes on Financial Products* in the Appendix of this report. Where I have recommended a transfer or encashment, details of my recommendations for the further investment of these monies can be found in the sections that follow. Please note where a switch of investments is recommended, the usual establishment charges will apply, and there is no guarantee that the new investment will provide enhanced performance.

Onshore With Profit Bond

NPI - 1234567

Original Investment	Date of Original Investment	Withdrawals	Fund Value	Encashment Value
£85,000	1-1-1999	£5,000	£97,000	£100,000

This investment is invested as follows:

Fund	Risk Rating	Percentage
With Profit	Low	100%

Terminal Bonus	Market Value Adjustment
£5,000	£2,000

I have recommended that you **encash** this investment for the following reasons:

- The current reversionary bonus rate applying to this investment is 0% per annum
- The annual bonus rates applied to the With Profit fund in recent history by the existing Life Company have been poor
- There have been a number of questions raised concerning the financial strength of the holding company in recent times
- The holding company has closed their books to new business. With no new monies coming in, this raises questions concerning their future growth prospects and long term viability
- There is currently no surrender penalty applying to this investment
- It will be possible to receive an enhanced allocation on reinvestment, which will result in more than 100% of your monies being reinvested

- The bonus rates declared by a life company are not an explicit reflection of the performance of the underlying assets held within their With Profit fund. In contrast a unit linked investment offers full transparency and its value is a true reflection of the underlying assets
- I can confirm that the Free Asset Ratio of your existing investment's With Profit fund is poor when compared to others in the market place. The Free Asset Ratio is a measure of the company's assets over its liabilities within the With Profit fund, and can be considered a useful indication of the likely returns you will receive in the future from a With Profit fund
- Over the longer term, higher risk equities have outperformed fixed interest securities. This means that to maximise the return from a With Profit fund, in terms of higher declared bonuses, the fund must have a reasonably high percentage of its assets invested in equities (ie in excess of 45%). Having analysed the underlying asset allocation of the With Profit fund of your existing investment, I can confirm that the percentage of the underlying assets held in equities is low, which in turn will affect the potential for long term capital growth
- Although market value adjustments may be reduced or removed in time, it is impossible to provide any indication as to a timescale when they will no longer be applied in their entirety
- Encashing this investment will crystallise the terminal bonus applying on the With Profit fund
- The only fund available under this investment is With Profits, and you require a fund offering the potential for greater returns. As such I have disregarded the option of an internal fund switch
- So the monies can be invested with a multi-provider or “fund supermarket”, who offer a greater range of funds across a number of asset classes, thereby providing enhanced diversification
- After discussing your dissatisfaction with the performance of this investment to date, it was agreed that we would look at the opportunity of investing in a professionally managed environment, such as a “manager of managers” / “fund of funds” type investment
- To use the monies raised to fund an Inheritance Tax efficient investment vehicle, as per your objectives

Please be aware the encashment of an Investment Bond will give rise to a chargeable event. For further information concerning any additional taxation that may be due as a result of the chargeable event, I refer you to the section entitled Technical Notes in the Appendix of this report. Should you have any doubt how this applies in your individual circumstances, I would suggest that you contact your accountant.

Investment Recommendations

I have recommended that you invest the proceeds into another Onshore Investment Bond, for the following reasons:

- This investment reflects your investment goals and access requirements
- Reduces the risk associated with direct asset-backed investment by spreading your funds over a range of stocks and shares which are professionally managed by an investment manager.
- It is possible to withdraw 5% of the original sum invested as an income, without giving rise to an immediate tax charge, for a maximum of 20 years. Any unused 5% allowance can be carried forward and used in subsequent years.
- There will be no capital gains tax to pay on the encashment of this investment
- The bond can be divided up into a number of equal segments for maximum flexibility and tax efficiency
- It is possible to switch funds within a bond without triggering a taxable event
- The annual 5% withdrawals will not count as income in its truest sense, and as such will not affect any Age Allowance to which you are entitled
- An investment bond is an ideal investment to hold under a trust. As it is technically classed as a “non-income” producing investment, it will negate the need to complete regular tax returns, thereby significantly reducing the administrative responsibilities of the trustees

Selection of investment provider

When selecting the most appropriate investment provider to meet a client’s individual needs and circumstances, there are a number of issues to be considered:

Fund range and performance

There is obviously no means to categorically predict future fund performance. Although it should be stressed that past performance is no guarantee of future performance, it can act as a useful guide.

In addition to actual fund performance, it is also beneficial to compare the range of funds available under each respective contract. Flexibility to switch between a wide range of strong performing funds is important. Your attitude to risk could change, and as a result, you may wish to take an alternative investment strategy in the future.

Charging structure

The effect of charges is reflected in the reduction in yield of the selected investment. The reduction in yield, outlined in the illustration provided, includes deductions for expenses, commission and other adjustments. For further information concerning charges, I refer you to the illustration and Key Features Document provided.

Financial strength

It is imperative to select a provider who is financially secure and will be able to meet all their obligations to policyholders in the future.

Redemption penalties

Although I would only tend to recommend an "asset backed" investment, where the individual concerned is willing to take a medium to long term view to investment (i.e. five years plus), it is also worth comparing any charges, which would be incurred on the early encashment of the selected investment. For further information, on redemption penalties, I refer you to the illustration provided.

Summary of Recommendations

Having compared the whole of the market place, I have recommended that the available monies be invested as follows, for the reasons highlighted below:

Ownership	Investment Type	Company	Lump Sum	Annual Income	Income Frequency
Joint	Onshore Investment Bond	CoFunds	£100,000	£2,400	Monthly

- Cofunds are financially strong, a fact which is reflected in the AA credit rating they have been awarded by Standard & Poors, a leading independent ratings agency. Cofunds was launched January 2001, and has experienced continual growth to date. They are backed by Jupiter, Legal & General, M&G, Newhouse Capital, Threadneedle and IFDS, the UK's leading fund administrator
- Although you have no requirement for any additional income at this time, I have recommended that you withdraw an income of £200 per month from this investment to fund a Whole of Life insurance vehicle. This will assist in the mitigation of your potential Inheritance Tax liability. Further details can be found in the section that follows.
- The charging structure of this investment is competitive when compared to similar investments in the market place
- The research tool I have used to review the market place identified them as offering the most suitable and competitive product to meet your needs and objectives
- They have provided us, and our clients, with an excellent service in the past
- They provide access to a wide range of funds, making it simple to vary your fund selection to reflect changing market conditions, or should you wish to take a different investment strategy in the future
- The recommended investment provides access to a number of world-leading Investment Houses and their funds. This not only provides greater scope to create a

portfolio tailored to your individual risk profile and objectives; but the resultant diversification will also diminish the investment risk associated with this form of investment

- The single consolidated statement associated with a multi-fund investment significantly reduces the typical administration and paperwork associated with a well diversified portfolio
- It is possible to switch the underlying funds of this investment free of charge
- They provide the facility to manage your investment online. Providing access to instant valuations, fund information and other investment analysis tools
- There is currently an extra allocation rate applying to this investment, which means in excess of 100% of your monies will be invested from day one
- The redemption charges are competitive, as highlighted below

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
8%	6%	4%	2%	1%	0%

Fund Selection

I have recommended that the available monies be invested as follows.

Fund	Sector	Risk Rating	Percentage
Cazenove MM Diversity	Cautious Managed	Low / Balanced	100%

Further information concerning the outlook for the various sectors recommended above can be found in the appendix of this report.

I have recommended the above for the following reasons:

- The above reflects your stated risk profile and investment objectives
- The performance has predominately been above the sector average since inception
- Morningstar apply a star rating of 1 (poor) to 5 (good) to investment funds. This is a risk-adjusted measure of fund performance relative to the fund's peers within its sector – The above have predominately been awarded 3 or above stars
- By investing in an actively managed fund, you are not only gaining exposure to a range of asset classes, but the asset allocation and specific stock selection is being professionally managed on a daily basis
- Multi-manager funds provide you with access to a range of investment managers under the umbrella of a single fund, with the fund normally able to negotiate special terms that are not available to individual investors. The multi-manager uses their expertise to select and assess the best performing fund managers in each asset class and regional sector. To this end, you will benefit from two layers of management expertise as well as considerable diversification. The asset allocation

is set by the multi-manager, who also monitors the performance of the underlying funds on a daily basis and re-balances the portfolio where necessary

I have recommended that this investment be established in your joint ownership and as joint lives assured.

Please bear in mind that the outlook for market sectors can change, certain asset classes and funds will perform better than others, and as a result your asset allocation will become unbalanced over time. To this end, I strongly recommend that you contact me regularly to review the performance, and continued suitability of the recommended investment portfolio.

I have also recommended that this investment be placed under a Discounted Gift Trust for the following reasons:

- It will assist in the mitigation of any future potential Inheritance Tax liability
- It will create an immediate Inheritance Tax saving. This is achieved through the “discounting” of the invested capital which will be used to provide the future income payments
- Allows the settlor to retain the right to a chosen level of income during their lifetime
- Any growth on the trust fund will be immediately outside of your estate for Inheritance Tax purposes
- The whole trust fund will be free of Inheritance Tax after seven years
- If the settlor dies within seven years of the trust having been created, only the value of the gift is included within their estate for the purposes of Inheritance Tax
- There will usually be no requirement for probate on this investment

Following the Finance Act 2006, any gift made into a Discounted Gift Trust will be deemed a Chargeable Lifetime Transfer (CLT), unless the beneficiaries are defined absolutely at outset, in which case it will be deemed a Potentially Exempt Transfer (PET). If the gift is deemed a PET, there will be no tax to pay at outset, and provided the settlor survives seven years from the date the trust was established, the value of the investment will fall outside of the settlor’s estate for Inheritance Tax purposes.

I have recommended that the trust be established with yourselves as settlors and trustees (together with your solicitor), and with your children and your grandchildren as potential beneficiaries.

If the gift is deemed a CLT, this will have no immediate impact if the amount of the discounted value plus any other gifts made within the previous seven years is below the Nil Rate Band. However, a 20% immediate lifetime IHT charge will be levied if the value of the bond exceeds the then Nil Rate Band. There will also be a possible ten year periodic charge levied if the value of the gifted element of the trust fund exceeds the then Nil Rate Band, which will in general equate to, no greater than, 6% of the excess over the Nil Rate Band at the tenth anniversary. In addition, there will be a possible exit charge

when monies are paid out of the trust. Any liability to periodic or exit charges will be based on the value of the bond less the value of the settlor's retained rights. In calculating these charges, it is important to remember to also take account of any CLT's made by the settlor in the previous seven years.

As the name suggests, a Discounted Gift Trust aims to provide the settlor, or settlors, with an immediate discount to their potential Inheritance Tax liability, with any growth on the trust fund falling outside of their estate for Inheritance Tax purposes from day one. A Discounted Gift Trust basically involves a single premium investment bond being written under a suitable trust. As the settlor retains the right to a chosen level of income during their lifetime, this will have a value for Inheritance Tax purposes which will stay inside of the estate. As such, for the purposes of calculating the gift at outset, the value of the full investment can therefore be reduced (or "discounted") by this "retained value". The actual value of the "retained fund" is calculated taking into account the settlor's sex, age and state of health, and the amount and frequency of the capital payments they are entitled to, and is calculated on application. The remaining part of the investment will only be fully deducted from your estate for Inheritance Tax if you survive seven years. (However, please be aware the HM Revenue & Customs Office may challenge the amount of the immediate tax saving, and this can only be confirmed after your death. If this happens the potential Inheritance Tax saving may be reduced).

Please note the income you receive must be determined and fixed at outset, and once this has been set up, it cannot be terminated or altered at any time, or in any way. I do stress that you, as the settlor, will have NO access to the underlying capital. I would also like to take this opportunity to emphasise that the Discounted Gift Trust is effectively irreversible, and once it has been established it cannot be altered or cancelled.

For further information concerning trusts, I refer you to the Technical Notes section in the Appendix of this report. The Insurance Company can provide the necessary trust documentation. I do stress that it is beyond my scope to advise on specific trust wording. To this end, should you have any queries concerning the suitability of the trust wording, I would suggest you seek further advice from your solicitor.

A trust has a separate legal identity from the person who has created it. Just as an individual has to complete tax returns, the trustees need to report certain events. Please note - If the value transferred into the trust, when added to the value of all other Chargeable Lifetime Transfers made in the previous seven years, exceeds the then Inheritance Tax Nil Rate Band, then an IHT100 return will need to be submitted to HM Revenue & Customs. In respect to A Discounted Gift Trust the "value transferred" will be the value after the discount. Therefore, in summary, if the discounted value plus the value of all other chargeable transfers in the previous seven years is below the current Inheritance Tax Nil rate Band, there will be no need to submit an IHT100 form.

It is important you are aware that the value of units in a unit linked investment, as well as any income they generate can fall as well as rise and that past performance is not a

guarantee of the future. If you surrender the contract, especially in the early years, you may get less than you invested.

If you make withdrawals from an investment, which exceed the net growth rate achieved by the underlying investments, its value will fall. If an income is being drawn immediately, you should be aware that this could have the effect of eroding the initial value of the capital invested. I strongly recommend that you read, carefully, the section entitled "risk factors" on the Key Features Document, which highlights any possible disadvantages of affecting this contract.

For further information concerning the recommended investment, I refer you to the section entitled Notes on Financial Products in the Appendix of this report, and the Key Features Documents provided. Your right to cancel the recommended plan within the notice period is also summarised in the Key Features Document, and you will receive a cancellation notice from the product provider.

Affordability & emergency fund

I would always suggest that you should consider keeping some money available which is immediately accessible to cover any unforeseen emergency expenditure that may arise. I would usually recommend, as a minimum, that you retain an emergency fund equal to three month's expenditure within an immediate access deposit account. I confirm you are happy with the level of your emergency reserve.

Finally, I would also like to take this opportunity to confirm all of the above recommendations are affordable to you.

Alternative products considered but discounted

I confirm due consideration was given to a range of products, but subsequently discounted for the following reasons:

Individual Savings Account

- It is not possible to hold an ISA under a trust

Unit Trust

- Generally do not provide certainty of income, in that very few providers offer the facility for a fixed income to be paid on a monthly basis
- Initial and on-going charges are generally greater (typically the initial and annual management charge incurred on investing into a unit trust would be 3 to 5% and 1 to 1.5% respectively)
- It is more administratively onerous to hold a unit trust under trust
- You will not receive an enhanced allocation on investment

- Any capital gains above the annual exemption will need to be declared in your annual tax return
- The switch of funds under a unit trust will give rise to a taxable event, which in turn could give rise to a capital gains tax charge
- The costs associated with switching funds within a bond when compared to the sale and repurchase of units in a unit trust are generally significantly cheaper

National Savings Certificates

- They do not meet your stated risk profile
- You wished to derive an income from the invested capital

Offshore Investment Bonds

- The charges associated with an offshore bond are generally greater
- Your circumstances and requirements do not warrant an offshore investment

Inheritance Tax Planning

Under current legislation, the first £325,000 of an individual's assets (less lifetime gifts made in the seven years prior to death or applicable cumulative chargeable lifetime transfers) passing on death to beneficiaries is 'nil rated' for inheritance tax purposes. Any excess is liable to Inheritance Tax at a flat rate of 40%. However, please note any transfers to a surviving spouse will be totally exempt from inheritance tax.

In his Pre-Budget Report on 9th October 2007, the Chancellor announced a major change to Inheritance Tax. With effect from that date, any part of the Nil Rate Band available to a deceased person that has not been used on that death (irrespective of whether the deceased person died prior to this date, although for civil partnerships the first death must have occurred on or after 5 December 2005, the date for Civil Partnership Act became law in the UK) can be transferred to their spouse/civil partner.

In a nutshell, married couples, and civil partners will now be able in many cases to use up to two Nil Rate Bands at second death. However unmarried couples and single persons gain no advantage. Widow(er)s will be able to “uplift” their own Nil Rate Band allowance on death by adding to it the unused percentage of their deceased spouses’s Nil Rate Band. For further information concerning the proposed changes, I refer you to the Technical Notes in the Appendix of this report.

I understand, from the information provided that your estate is split as follows:

	Mr	Mrs	Joint
Main residence			£500000
Other Property			£100000
Deposit Based			£100000
ISA's	£50000	£50000	
Investment Bonds			£100000
Shares	£50000	£50000	
Less			
Investments in Trust*			£100000
Total	£100,000.00	£100,000.00	£700,000.00

Please note - If you have made any potentially exempt transfers, or chargeable lifetime transfers within the last fourteen years, these could also potentially form part of your estate for Inheritance Tax purposes

(* It has been assumed for the purposes of this exercise that the investments held in trust, as highlighted above, will be outside of your estate for Inheritance Tax purposes)

Accordingly, assuming no planning was undertaken your estate could be subject to an Inheritance Tax liability of £100,000

Mitigating Inheritance Tax

I understand you have made a will. I do stress the importance of keeping your will up to date, and as such, ensuring your estate passes in accordance with your wishes. However for the sake of completeness, I would also draw to your attention the following, which could assist in minimising any potential future Inheritance Tax liability.

1) Potentially exempt transfers

Lifetime transfers to individuals, or trusts in which an individual has an absolute interest, are exempt from any immediate inheritance tax, and provided the donor survives seven years, and there is no gift with reservation conveyed, then there will be no Inheritance Tax to pay on death.

2) Chargeable lifetime transfers

Lifetime transfers into Accumulation and Maintenance, Discretionary and Flexible Trusts (ie a trust in which no one individual has an absolute interest) will be regarded as Chargeable Lifetime Transfers, and as a result there may be an immediate Inheritance Tax charge (at the lifetime rate of 20%) on the creation of the trust, if the transfer exceeds the then nil rate band. The trust will also be subject to periodic and exit charges. However, provided the donor survives seven years, and there is no gift with reservation conveyed, then there will be no Inheritance Tax to pay on death.

3) Life assurance

A whole of life policy can be effected in trust to pay a potentially exempt sum to the beneficiaries of your estate to meet the Inheritance Tax liability. The premium can be claimed against the £3,000 annual exemption or normal expenditure out of income.

I understand you have already included the provision for a discretionary trust within your will. Although the changes to the Inheritance Tax regime do arguably reduce the perceived benefit of, and bring into question the original reasons for, including a Discretionary Will Trust within your will, there may be other good reasons for keeping in place such an arrangement, such as “means testing” for care fees.

Creation of a trust fund

I have recommended that you affect a whole of life policy to assist in the payment of your current Inheritance Tax liability. As the policy is written under trust, the proceeds

will not form part of your estate and will usually be payable to your beneficiaries free of Inheritance Tax on the death of the life, or where applicable second life, assured. The proceeds will not be subject to probate, and would therefore become available immediately to meet the Inheritance Tax liability.

Provided the relevant conditions are satisfied, the premiums payable should be exempt from Inheritance Tax under the normal expenditure out of income exemption and / or the £3,000 annual exemption. If the relevant conditions are not satisfied the premiums will be chargeable as a lifetime transfer.

I do stress that it is beyond my remit to advise on specific trust wording. To this end, should you have any queries concerning the suitability of the trust wording to your individual circumstances, I would suggest you seek further advice from your solicitor.

There are three bases of cover available under a whole of life policy, a summary of which can be found below.

- **Guaranteed cover:** This provides a fixed level of cover in return for a guaranteed premium throughout your lifetime. There is no investment element to this contract.
- **Maximum cover:** The sum assured is guaranteed until the first plan review (usually after ten years). At that point, either the sum assured is likely to reduce, or should you wish to maintain the same level of cover, the premium will probably have to increase. No further medical evidence will be required unless you increase the level of cover provided.
- **Balanced Cover:** Although the premium is subject to the same reviews as a maximum cover contract, the likelihood of the premiums needing to increase is significantly less, as a greater proportion of the premium is directed towards the investment element of the contract.

Having reviewed the market place, I have recommended the following:

Company	Basis	Surrender value after 10 years	Premium	Sum Assured
Canada Life	Balanced	£5,000	£200	£100,000

The premium will be payable monthly. Please be aware the premium is quoted for illustrative purposes only, and are subject to the procedure of underwriting.

I have recommended the above, for the following reasons:

- Founded in 1847, Canada Life Assurance Company has grown and prospered and today provides a diversified range of insurance and wealth management products and services in Canada, the United States, the United Kingdom, the

Republic of Ireland, Germany, Brazil and several other jurisdictions such as the Isle of Man. Canada Life began operating in the United Kingdom in 1903. In 2003, Canada Life became part of The Great-West Life Assurance Company, a subsidiary of Great-West Lifeco. As a part of the Great-West Lifeco group, they are a constituent of the Financial Times Global 500 world's largest companies and with combined assets under administration of more than £191 billion (as at 31 December 2008). They are financially strong, a fact which is reflected in the B+ financial strength rating they have been awarded by AKG, a leading independent ratings agency

- They offer a competitive premium for the policy required
- The research tool I have used to review the market place showed them to be offering the most suitable and competitive product to meet your needs and objectives
- They are well established and financially strong
- They have provided us, and our clients, with an excellent service in the past
- They are known for having a good claims history, and paying claims quickly
- The company provides access to a wide range of funds, with a good past performance record
- By setting up the plan on a balanced cover basis, there is likely to be less need for premiums to increase in the future

Fund Selection

I have recommended that all premiums be invested as follows:

Fund	Sector	Risk Rating	Percentage
Cautious Managed	Cautious Managed	Low / Balanced	100%

I have recommended the above for the following reasons:

- The above reflects your stated risk profile and investment objectives
- The performance has predominately been above the sector average since inception
- Morningstar apply a star rating of 1 (poor) to 5 (good) to investment funds. This is a risk-adjusted measure of fund performance relative to the fund's peers within its sector – The above have predominately been awarded 3 or above stars
- By investing in an actively managed fund, you are not only gaining exposure to a range of asset classes, but the asset allocation and specific stock selection is being professionally managed on a daily basis

For further information concerning the recommended product, I refer you to the section entitled *Notes on Financial Products* in the Appendix of this report, and the Key Features Documents provided.

I strongly recommend that you read, carefully, the section entitled "risk factors" on the Key Features Document, which highlights any possible disadvantages of affecting this

contract. Your right to cancel the recommended plan within the notice period is also summarised in the Key Features Document, and you will receive a cancellation notice from the product provider.

Affordability & emergency fund

I would always suggest that you should consider keeping some money available which is immediately accessible to cover any unforeseen emergency expenditure that may arise. I would usually recommend, as a minimum, that you retain an emergency fund equal to three month's expenditure within an immediate access deposit account. I confirm you are happy with the level of your emergency reserve.

Finally, I would also like to take this opportunity to confirm all of the above recommendations are affordable to you.

For further information concerning Inheritance Tax, I refer you to the technical notes section in the Appendix of this report.

APPENDIX

Market Outlook

The below is provided courtesy of Skandia as part of their *Informer Indicator*. These are Investment House views and are not fund specific.

	EQUITIES								BONDS		
	UK	UK Smaller Comps	US	US Smaller Comps	Europe	Japan	Pacific Ex Japan	Emerging Markets	Gilts	UK Corporate	Global
Black Rock	↑	↑	↑	↑	→	↓	→	↑	↓	↑	→
F&C	↑	↑	↓	↓	↑	↓	→	↑	↓	↑	↑
Fidelity	↓		↓		↓	→	↑	↑	→	↑	↑
Invesco Perpetual	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	→
Investec	↑	↑	↑	↑	↑	↑	↑	↑	↓	→	→
JP Morgan	↑	↑	↑	→	↓	→	↑	↑	→	→	→
M&G	↑	↑	↑	↑	↑	↑	↑	↑	→	→	→
Schroders	→		↑		→	↑	→	↓	↓	↑	↓
Consensus View	↑	↑	↑	→	→	↑	↑	↑	↓	↑	→

Key

- ↑ The fund group believes the index they are using as a benchmark will rise in excess of 5% over the next 12 months
- ↓ The fund group believes the index they are using as a benchmark will fall in excess of 5% over the next 12 months
- The fund group believes the index they are using as a benchmark will have either a positive or negative movement of between 0% and 5% over the next 12 months

Risk warnings – Onshore Investment Bonds

In relation to the recommendations made in this report, I would like to draw your attention to the following risk warnings:

- Any “asset backed” investment should be considered for the medium to long-term and should not be entered into if you envisage withdrawing your capital before this time
- The value of the investment is determined by the value of the units, the price of which can fall as well as rise. The overall value of the investment is therefore not guaranteed and you might get back less than you originally invested, especially in the early years
- The investment provider may make a charge if you cash in or die during the early years of investment
- For a full explanation of the charges and how they affect your plan, please refer to your personalised illustration and the Key Features Documents
- The figures on any quotations provided are for illustration purposes only and are not guaranteed
- Past performance is no guarantee of future returns
- Recommendations are based on our understanding of current tax legislation, which may be subject to change and review
- You retain the right to cancel the recommended policy within 30 days from the date you receive the policy schedule. If you return the “cancellation notice” within the notice period, and the value of the investment falls before the insurance company receives it, they will take an amount equal to the fall in value
- Where an income is being drawn immediately, you should be aware that this could have the effect of eroding the initial value of the capital invested

Risk Warnings - Unit Linked Whole of Life

In relation to the recommendations made in this report, I would like to draw your attention to the following risk warnings:

- For a full explanation of the features of this plan, please refer to the personalised illustration and key features documentation supplied by the product provider
- The figures on any quotations provided are for illustration purposes only and are not guaranteed
- Recommendations are based on our understanding of current tax legislation, which may be subject to change and review
- Your final premium will be subject to underwriting
- The Insurance Company will not pay out if you do not provide them with any information they request or if the information you do provide is incorrect
- Premiums continue throughout your life, so if you are unsure that you can afford premiums at any time, this policy is likely to be unsuitable for you
- The sum assured paid out at claim is defined at the outset. If this product has been taken out for a specific purpose, for example, IHT planning, there is no guarantee it will meet the entirety of any future liability. It is the policy holders responsibility to monitor their liability and ensure the sum assured remains appropriate for the purpose intended
- You retain the right to cancel the recommended policy within 30 days from the day you receive the policy schedule. If you cancel the plan within the "notice period", any premiums will be refunded, however, there will be no cover in place
- Your premium will be reviewed at pre-stated date or at the discretion of the provider. Depending on performance, market returns and charges the cost of the policy may rise significantly
- Your plan may be made paid up if you stop paying the premiums. This means that your cover will continue as long as the cost can be met from your fund
- Where Waiver of Premium protection has not been included, the inability to continue premium payments after suffering an accident or illness may be experienced
- Where no escalation has been selected. You should be aware the effects of inflation may erode the benefits assured over time

Technical Notes – Chargeable Events on Onshore Investment Bonds

In some circumstances, a chargeable event may result in additional income tax having to be paid on the chargeable gain arising from an investment bond.

What is a chargeable event?

A chargeable event in respect to an investment bond may arise in the event of any of the following:

- Death
- Maturity
- Surrender
- Partial surrender in excess of the 5% allowance

How is a chargeable gain calculated?

Broadly speaking the chargeable gain is calculated by deducting the original sum invested plus the total gains on previous chargeable events from the proceeds raised.

For example £10,000 is invested into an investment bond on 1st January 2000.

31st December 2000 - Part surrender of £500. No chargeable event because it is within the 5% rule

31st December 2001 – Part surrender of £1,000. Chargeable event occurs, because surrender in excess of 5%.

Chargeable gain = £500.

31st December 2005 – Complete surrender. Proceeds of £14,000

Chargeable gain =	Maturity Value	£14,000
	+ Part surrender	£500
	+ Part surrender	£1,000

Total	£15,500	
	Less sum invested	£10,000
	Less previous gain	£500

Chargeable gain = **£5,000**

How is the taxation calculated?

The chargeable gain is “top-sliced”. This is achieved by dividing the chargeable gain by the number of full years the bond has been held for. If the gain arises from a partial surrender the top-slicing period equates to the number of full years back to the previous chargeable partial surrender. This top-sliced gain is then added to the individual’s total income for that tax year. If this does not push the individual’s income into the higher / additional tax rate band, there will be no further tax to pay. However, if the gain results in a liability to higher / additional rate tax, tax at a rate equating to the difference between basic and higher / additional rate will be due on that part of the gain which falls within the higher / additional rate tax band. To calculate the total tax liability, the tax due on the top-sliced gain is subsequently multiplied by the number of complete years the bond has been held for.

For example - It is calculated that the top-sliced gain is £1,000, of which half falls within the higher rate tax band.

To this end, £500 of the top-sliced gain will be subject to further taxation at 20% (ie 40% - 20%).

$$£500 * 20\% = £100$$

As the bond has been held for 5 years the total tax liability will be:

$$£100 * 5 = £500$$

The effect of chargeable gains on an investor’s age allowance

Investor who have attained the age of 65 should be careful when encashing an investment bond. There are a series of enhanced personal allowances for tax payers who are 65 or over. The portion of these allowances, over the basic personal allowance, is reduced by £1 for every £2 of total “income” over £22,900 (2010 / 2011 tax year). Any chargeable gain on the encashment of an investment bond will count in its ENTIRETY towards your total “income” in the relevant tax year, and in turn could reduce your enhanced personal allowance.

For this reason, I would suggest, if appropriate, that you consult your accountant to determine how this may effect your individual tax position.

Technical Notes – Inheritance tax

Inheritance tax is charged on certain lifetime gifts, on the value of an estate at death and on certain transfers into and out of trusts.

No tax is payable until cumulative transfers over a seven year period, whether lifetime or on death, exceed £325,000 for individuals or £650,000 for married couples or civil partners (2010 / 2011 tax year). The rate is 40% on death and 20% for chargeable lifetime transfers, payable immediately if the value of such transfers is above the Nil Rate Band. There are certain transfers, which are not chargeable. Broadly these are:

- Transfers to a UK domiciled spouse
- Transfers up to £55,000 in total to a non-domiciled spouse
- Transfers to charities
- Transfers to political parties
- Lifetime transfers to an individual, or an absolute trust after which the transferor lives for at least seven years and contain no reservation of benefit by the donor, these are known as “Potentially Exempt Transfers”. If such transfers are survived by less than seven years, but more than three years, taper relief may apply. However, it should be noted that any lifetime transfers made within seven years of death will have first use of the Nil Rate Band, and taper relief will only reduce the amount of IHT payable on death, where the amount of chargeable transfers (those made within seven years of death which are not exempt), exceed the Nil Rate Band at death.

Transfer survived by	% of full tax payable
3-4 years	80%
4-5 years	60%
5-6 years	40%
6-7 years	20%
7 + years	0%

- Lifetime transfers out of income which do not reduce capital ie one does not have to resort to capital to supplement diminished income
- The first £3,000 of a lifetime transfer in any tax year is exempt. This exemption can be carried forward for one tax year if unused.
- Lifetime gifts to any person that do not exceed £250 in a tax year
- Lifetime gifts in consideration of marriage. The exempt amounts are:

£5,000 from parents
£2,500 from grandparents, and
£1,000 from others

In addition, Business Property Relief and Agricultural Property Relief may allow businessmen and farmers to make IHT-free gifts of some of their business interests.

The Pre-Budget Report October 2007

The Pre-Budget Report on October 2007 made a significant change to the operation of the Nil Rate Band. With effect from that date, any part of the Nil Rate Band available to a deceased person that has not been used on that death (irrespective of whether the deceased person died prior to this date, although for civil partnerships the first death must have occurred on or after 5 December 2005, the date the Civil Partnership Act became law in the UK) can be transferred to their spouse / civil partner.

The claim to transfer the unused Nil Rate Band is made on the death of the surviving spouse and nothing needs to be done on the first death although it will be necessary to keep records of the proportion of the Nil Rate Band that is unused. If someone survives more than one spouse or civil partner, then on their death they may be able to claim additional Nil Rate Bands from more than one estate. However, the maximum that can be transferred is limited to the Nil Rate Band in force at the relevant time. In other words, the surviving spouse could never have a Nil Rate Band in excess of double that applying at the time of his/her death.

The amount that can be transferred will be based on the proportion of the Nil Rate Band that was unused when the first spouse or civil partner died.

Examples

On the death of the first spouse the chargeable estate is £156,000 and the Nil Rate Band is £312,000. This means that 50% of the Nil Rate Band is unused. If the Nil Rate Band is £325,000 when the surviving spouse dies, then that is increased by 50% to £487,500.

On the first death none of the original Nil Rate Band was used because the entire estate was left to a surviving spouse. Then if the Nil Rate Band when the surviving spouse dies is £350,000 that would be increased by 100% to £700,000.

Technical Notes – Background to trusts

What is a Trust?

A trust is a way of transferring ownership without giving up complete control of the trust property. A trust is usually created by a document - the trust deed, which names the people involved and sets out the terms of the trust.

Trusts are often used in Inheritance Tax planning as a means of removing assets from the settlor's estate, without losing control of, and possibly the benefits from, those assets. However, care must be taken to ensure that any such transaction does not fall foul of the HM Revenue & Customs's *gift with reservation* rule.

What are the benefits of trusts?

- Protection in the event of bankruptcy – Any asset held under trust will not be viewed as forming part of the settlor's estate.
- Ability to retain control – Trusts enable people to retain control over gifted assets
- Certainty of affairs – Trusts provide peace of mind that assets will be distributed in accordance with your wishes
- Speed of payment – Where an asset has been written under trust, the proceeds can be paid before the granting of probate
- Avoidance of Inheritance Tax – There are many ways in which trusts can be used to avoid the payment of Inheritance Tax

What are the main types of trusts available?

Below can be found a brief overview of the various types of trusts that are available:

Discretionary Trusts

This is a trust where no beneficiary has an immediate right to income or capital. The trustees have the discretion to distribute income to any beneficiary within the potential beneficiary class. The creation of such a trust is deemed a chargeable lifetime transfer, which means an initial Inheritance Tax liability at the life time rate (20%) may be payable, if the value of the gift exceeds the available nil rate band. Further charges may be payable every ten years and on the occasion of capital leaving the trust.

Interest in Possession Trusts

This is a trust where an individual / individuals enjoy the right to the trust property or any "income" generated by that trust. Following the 2006 Finance Act, the establishment of interest in possession trusts post 22nd March 2006 will be deemed a chargeable lifetime transfer and not a potentially exempt transfer, and as such the taxation of such a trust will fall in line with a discretionary trust as summarised above.

Absolute / Bare Trust

This is a trust where any beneficiary has an immediate and absolute right to both the trust capital and income. Absolute / Bare trusts have been unaffected by the 2006 Finance Act, and as such, a gift into such a trust will continue to be a potentially exempt transfer.

Accumulation & Maintenance

This is a special type of trust where one or more beneficiaries will become legally entitled to the trust property or the income from it on attaining a specified age, not more than 25. From 22nd March 2006 it has not been possible to create new A&M trusts, and existing ones will be phased out. In place of A&M Trusts there are two types of trust for children which can only be made in Wills, one of which can also arise on intestacy. .

Following the Finance Act 2006, the establishment of an Accumulation and Maintenance trust post 22nd March 2006 will be deemed a chargeable lifetime transfer and not a potentially exempt transfer, and as such the taxation of such a trust will fall in line with a discretionary trust as summarised above

Glossary of terms

The Settlor - The person who creates the trust and provides the trust property.

The Beneficiaries - The people entitled to benefit from the trust property.

Default Beneficiary - A beneficiary, who, if no other appointment is made by the trustees will benefit. Also known as a Named Beneficiary.

Potential Beneficiary - A beneficiary, who at the trustee's discretion, may become entitled to a beneficial interest.

The Trustees - The people who control the trust, and ensure it is being managed in the interests of the beneficiaries

A Gift with Reservation - A gift where the donor is deemed to continue to derive benefit from the gifted asset. For the purposes of inheritance tax, this is not treated as a gift at all.

Interest in Possession - A current entitlement to trust income, or enjoyment of trust property

Notes on financial products

Onshore Investment Bond

This is a lump sum investment vehicle, marketed by life insurance companies, offering the opportunity to benefit from professional fund management within a range of specialist and managed investment funds.

Bonds do not produce conventional income but capital withdrawals of 5% of the original amount invested can be taken each year, for a maximum of 20 years, free from personal taxation. Any tax liability on the 5% withdrawals is deferred until the bond matures or on its earlier encashment. Alternatively, the 5% facility can be allowed to accumulate and used at intervals during the twenty year span.

Taxation

The underlying funds of an investment bond are taxed internally at a rate approximately equivalent to basic rate tax. The tax deducted can not be reclaimed by non-taxpayers.

There is no capital gains tax to pay on encashment. However, a withdrawal in excess of 5% per annum will give rise to a chargeable event. At that time, a “top slicing” exercise would be undertaken. If the “top sliced” gain results in a liability to higher / additional rate tax, tax at a rate of 20% / 30% will be due on that part of the gain which falls within the higher / additional rate tax band. There will be no additional tax to pay for a non or basic rate tax payer.

Unit linked whole of life

Whole of life insurance provides a guaranteed sum assured payable on death and / or the diagnosis of a pre-determined critical illness, if incorporated. As the name suggests the period of cover is not subject to a specific term. The sum assured is subject to periodic reviews. If the policy is effected on a maximum sum assured basis, it is more likely that premiums will need to increase following the review.

The premiums payable are invested in the selected fund(s), as such the policy may have a small cash-in value in the later years. In the event of a claim, the tax free amount payable would be the greater of the guaranteed sum assured and the value of the underlying units.

Confirmation

I have identified your objectives, and I hope you will agree that the recommendations made, correspond to your current needs and future requirements. If you have any queries concerning the contents of this report, or should you feel the enclosed recommendations are in any way an inaccurate reflection of your circumstances and future objectives, please contact me immediately.

Report written by **A.N Adviser**

Signature _____ Date ____/____/____

We the undersigned have received read and understand this report. We accept the recommendations, as detailed above, and confirm we have received all supporting literature including key features documents and illustrations.

Accepted by **Mr A Client and Mrs A Client**

Signature _____ Date ____/____/____

Signature _____ Date ____/____/____