

# Financial Planning Report

Mr A Client



Prepared by:

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# SUITABILITY REPORT

## Introduction and basis of advice

Your financial affairs have been analysed and my advice is set out below. I am authorised to provide advice 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 reflects 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, remuneration disclosure and Key Features documents, which all provide important information about the recommendations contained within this report. 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. This explains my status as an Independent Financial Adviser, our terms of business, the services we offer, and how we can be remunerated for these services.

If you believe that the information in any of the documents provided is incorrect please let me know as soon as possible. I would also mention that if any information has not been disclosed, it is possible that my advice may not take account of all your personal requirements and could ultimately have been different. I cannot accept responsibility for any non-disclosed information which could have affected my advice. Nor can I accept any liability should you suffer any loss due to the non-disclosure of material facts which have not been brought to my attention.

## Summary of current position & objectives

Please find below a summary of your current position:

<b>Name</b>	<b>Mr A Client</b>
<b>Date of Birth</b>	1/1/1965
<b>Marital Status</b>	Married
<b>Number of Financial Dependents</b>	0
<b>Occupation</b>	Director
<b>Employment Status</b>	Employed
<b>Tax Status</b>	40% tax payer
<b>Monthly Net Income</b>	££4,000
<b>Monthly Expenditure</b>	££2,000
<b>Smoker</b>	No
<b>State of Health</b>	Good

It was a pleasure to meet you at our offices recently, and I hope you found our discussions to be helpful and informative. I confirm that Alan is employed as the Managing Director of his own company ABC Ltd. Your annual salary is £65,000, which makes you a higher rate tax payer. Your wife Andrea is a housewife and has a small amount of income (circa £1,000 pa) generated from her savings, making her a non-tax payer. I confirm that you have sufficient income to cover your regular expenditure, and you have no plans for any major expenditure at this time.

I understand that Alan has been disappointed by the performance of his existing pensions with Abbey Life and Windsor Life, and is keen to undertake a thorough review of these arrangements to

determine whether they remain the best vehicles to save for your retirement, which you imagine will be on, or around your 65th birthday.

You have specifically requested that I focus my advice on the following:

- A review of your existing pension arrangements to ensure they are performing satisfactorily, reflect your stated risk profile and continue to meet your requirements for retirement

You have specifically requested that I focus my advice on the above. Had I undertaken a full review of your financial affairs at this time, it is possible that other needs and shortfalls may have been identified. I cannot accept responsibility for any other need which has not been discussed. By not reviewing all areas of your financial affairs, you should be aware that there is a possibility that you may be open to financial loss in the future.

### **Attitude to Risk**

We discussed at some length your attitude to risk and in particular the relationship between risk and reward. The more risk you are prepared to accept, the greater the long term rewards will often be. It is important to maximise your return, but also ensure you are not exposed to a level of risk that is unacceptable to you. It is therefore imperative that your attitude to risk and maximum capacity for loss is clearly defined at outset.

You have completed the Distribution Technology Risk Profiling Questionnaire. The questionnaire has been designed to assess your knowledge, experience, attitude towards investment risk and capacity for loss.

Your risk profile was deemed to be **Profile 5 – Medium Risk**.

A full summary of my company's attitude to risk definitions can be found in the appendix of this report

## Review of existing pension arrangements

Please find below a review of your existing pension arrangements. Please note - The fund and transfer values illustrated below will be subject to daily fluctuations.

Further information concerning the past performance of your existing pensions can be found in the section entitled *Investment Fund / Portfolio Information* at the back of this report. I do stress that past performance is no guarantee of future performance.

### Windsor Life Personal Pension Plan - 123456

Gross Employer Contribution	Frequency	Gross Employee Contribution	Frequency	Fund Value		Transfer Value		Normal Retirement Age
				Protected Rights	Non Protected Rights	Protected Rights	Non Protected Rights	
£0	N/A	£50	Monthly	£10,000	£10,000	£10,000	£8,000	65

The pension is invested as follows

Fund	Risk Rating	Percentage
Managed	Balanced	100%

#### *Policy Benefits & Features*

**Tax Free Cash Entitlement** – This pension does not include an entitlement to a tax free cash (Pension Commencement Lump Sum) payment in excess of 25% of the fund value at retirement.

**Pension Contribution Insurance Benefit** – This pension does not include Pension Contribution Insurance Benefit. This means that in the event of you being unable to work through illness or injury that you could find that you could not afford to maintain the regular contributions

**Life Insurance** – This pension does not incorporate any additional life cover above and beyond the return of the pension fund.

**Contracted-out Benefits** - The plan has historically received National Insurance contributions in replacement to SERPS or the Second State Pension. These contributions will provide Protected Rights benefits. It is now possible to take Protected Rights benefits from the minimum retirement age and 25% of the fund can be taken as a tax free lump sum.

**Stakeholder Guarantee** – This pension does not include any form of guarantee that the charges of this contract will not exceed those of a stakeholder pension.

**Guaranteed Annuity Rate** - This pension does not incorporate a guaranteed annuity rate.

**Guaranteed Minimum Pension** – This pension does not include a Guaranteed Minimum Pension.

I have recommended that you **transfer** your existing pension benefits to an alternative arrangement for the following reasons:

- This plan does not provide the necessary flexibility to allow you to tailor the benefits around your changing needs and circumstances

- So the monies can be invested in a plan that offers the seamless transition to drawdown pension. This is commensurate with your retirement strategy and will provide you with the flexibility to draw benefits as and when required to reflect your circumstances and objectives
- So your pension assets can be invested within a SIPP which permits investment in a wider range of investments including, shares, unit trusts and property
- The fund performance and range of investment opportunities available under this pension are restrictive. As such I have disregarded the option of an internal fund switch
- There are no suitable alternative investment opportunities available under your existing pension. As such I have disregarded the option of an internal fund switch
- To consolidate your pension plans with one provider thereby providing certainty of affairs and ease of administration
- This plan offers limited online functionality
- You have been extremely disappointed by the service you have received from the holding company
- 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
- I have calculated that the proposed alternative pension will need to grow at a rate of 0.5% until retirement in order to match the guaranteed annuity rate provided by this plan. Although I believe this growth rate is achievable and commensurate with your risk profile I do stress this is not guaranteed

#### Abbey Life Retirement Annuity Contract - abc678

Gross Employer Contribution	Frequency	Gross Employee Contribution	Frequency	Fund Value		Transfer Value		Normal Retirement Age
				Protected Rights	Non Protected Rights	Protected Rights	Non Protected Rights	
£0	N/A	£0	N/A	£-	£50,000	£-	£60,000	65

The pension is invested as follows

Fund	Risk Rating	Percentage
With Profit	Low	100%

The following currently applies to this pension:

Terminal Bonus	Market Value Adjustment
£12,000	£2,000

#### Policy Benefits & Features

**Tax Free Cash Entitlement** – This pension does not include an entitlement to a tax free cash (Pension Commencement Lump Sum) payment in excess of 25% of the fund value at retirement.

**Pension Contribution Insurance Benefit** – This pension does not include Pension Contribution Insurance Benefit. This means that in the event of you being unable to work through illness or injury that you could find that you could not afford to maintain the regular contributions

**Life Insurance** – This pension does not incorporate any additional life cover above and beyond the return of the pension fund.

**Contracted-out Benefits** – This pension does not include any Protected Rights benefits.

**Stakeholder Guarantee** – This pension does not include any form of guarantee that the charges of this contract will not exceed those of a stakeholder pension.

**Guaranteed Annuity Rate** - This pension plan incorporates a guaranteed annuity rate which could prove valuable when compared to the annuity rates available on the open market at the time of taking benefits. However, it is worth bearing in mind that a number of companies place restrictions on the "shape" of benefits the annuity can provide if the guaranteed annuity rate is to be applied. Usually if any other basis is required then current annuity rates will apply. I do stress that if you were to transfer this pension you would give up this guaranteed annuity rate for an unknown rate which could turn out to be less when you come to take an income from your pension. Although a guaranteed annuity rate is obviously an important potential benefit it should still be balanced with your overall objectives.

The guarantee available is £81 per £1,000 of fund value, and this will apply provided the annuity is established on the following basis: single life, no guarantee period and with no escalation. For comparative purposes, if you were to purchase a comparable annuity on the open market at this time, you could receive a rate of £70 per £1,000 of fund value.

Having discussed your retirement plans in some detail, I understand that you would be keen to take your pension benefits at retirement in a flexible and tax efficient manner and you were particularly interested in the concept of Unsecured Income. Bearing in mind that Andrea has little pension provision of her own, you also stated that it was essential that any arrangement established on your eventual retirement had the facility to continue to provide Andrea with an income should you predecease her. With this in mind I would suggest that the fact that your existing pension has a guaranteed annuity rate attaching to it can be dismissed as the terms on which it must be provided do not suit your circumstances and stated objectives.

**Guaranteed Minimum Pension** – This pension does not include a Guaranteed Minimum Pension.

I have recommended that you **transfer** your existing pension benefits to an alternative arrangement for the following reasons:

- There would be no financial penalty incurred on transfer
- This plan does not provide the necessary flexibility to allow you to tailor the benefits around your changing needs and circumstances
- So the monies can be invested in a plan that offers the seamless transition to drawdown pension. This is commensurate with your retirement strategy and will provide you with the flexibility to draw benefits as and when required to reflect your circumstances and objectives
- So your pension assets can be invested within a SIPP which permits investment in a wider range of investments including, shares, unit trusts and property
- The current reversionary bonus rate applying to the With Profit Fund is only % per annum
- The annual bonus rates which have been applied to this With Profit fund in recent history have been poor

- 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, such as I have recommended, offers full transparency and its value is a true reflection of the underlying assets
- The Free Asset Ratio of this With Profit fund is %. This is low when compared to others in the market place. The Free Asset Ratio is a measure of the company's With Profit fund's assets over its liabilities and can be considered a useful indication of the likely returns you will receive in the future
- Equities have traditionally outperformed fixed interest securities over the longer term. Therefore to maximise the return from a With Profit fund, there must be a reasonably high percentage of the underlying assets invested in equities (ie in excess of 45%). Having analysed the asset allocation of this With Profit fund, I can confirm that the percentage of the equity allocation is low in relative terms. This will in turn affect the fund's 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 when they will no longer be applied in their entirety
- A transfer will crystallise the terminal bonus applying to the With Profit fund
- The only fund available under this contract 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 your pension assets can be reinvested in a manner more befitting of your risk profile
- It is possible to transfer your fund to an alternative pension plan with a more competitive charging structure. A summary of the charges of your existing plan and the proposed alternative can be found later in this report
- To consolidate your pension plans with one provider thereby providing certainty of affairs and ease of administration
- This plan offers limited online functionality
- You have been extremely disappointed by the service you have received from the holding company
- There have been a number of questions raised concerning the financial strength of the holding company in recent times
- Although there are guaranteed annuity rates applying to this plan, I would suggest that the potential for long term growth offered by the company's With Profit fund is limited and the overall effect of the guaranteed annuity rate is of limited benefit
- Although the guaranteed rate applying to this plan is very competitive, the basis on which the annuity must be established to receive this rate is extremely restrictive and does not reflect your requirements in retirement
- I have calculated that the proposed alternative pension will need to grow at a rate of 0.5% until retirement in order to match the guaranteed annuity rate provided by this plan. Although I believe this growth rate is achievable and commensurate with your risk profile I do stress this is not guaranteed

## Pension Switching Recommendation

I have recommended that you transfer the pensions highlighted in the earlier review section into an alternative arrangement. A summary of the options available to you can be found in the appendix of this report.

Please find below an analysis of those existing pensions identified for possible transfer. When considering the switch of an existing pension to an alternative pension arrangement there are a number of factors that need to be considered:

### *Exit penalties*

The existing provider may levy a charge for transferring your pension to an alternative provider. This penalty can be quantified by comparing the difference between the current fund and transfer values as highlighted in the earlier review section. To enable a true and fair comparison to be made with your existing contract, the transfer value is always used when determining the potential benefits that could be received from any proposed new provider.

### *Financial strength*

As a pension is a long term investment 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.

### *Charges and potential benefits*

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

The charges of your existing pension compared to those of the proposed alternative are detailed below:

#### Existing Pension(s)

Company	Policy Number	Initial Charges	Annual Investment Management Charges	Annual Contract Charges	Other Charges
Windsor Life	123456	-	-	1.25%	£2.50 pm admin fee
Abbey Life	Abc678	-	-	1%	

#### Proposed Alternative

Initial Charges	Annual Investment Management Charges	Annual Contract Charges	Other Charges
£150 set up Fee	1.3% per annum DFM charge	£50 pa SIPP fee	

The effect of on-going charges can be demonstrated by comparing the potential benefits you could receive from your existing pension and the proposed alternative. A switch would involve a transfer of your pension fund less any transfer penalties and where appropriate the redirection of your regular contributions to the proposed alternative.

The projected fund values assume benefits will be taken at age 65 as per your stated objective. Please note these figures are for illustrative purposes only and cannot be guaranteed. The comparison is based solely on charges and assumes the highlighted annual investment return.

Company	Policy Number	Existing Pension			Proposed Alternative			Critical Yield %
		5%	7%	9%	5%	7%	9%	
Windsor Life	123456	£40,000	£50,000	£60,000	£35,000	£45,000	£55,000	0.5 %
Abbey Life	Abc678	£110,000	£140,000	£180,000	£105,000	£135,000	£175,000	1.1%

The critical yield represents the additional annual growth rate that the proposed alternative would need to achieve above and beyond that of your existing pension in order to justify the transfer in pure charging structure terms. Based on your attitude to risk and the investment strategy I have recommended, I believe this is reasonable and achievable.

#### *Investment options and performance*

There is obviously no means to categorically predict future investment performance. Although it should be stressed that past performance is no guarantee of future performance it can act as a useful guide. It is also beneficial to compare the range of investment options available. 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.

As a result of my analysis I have recommended that you switch those existing pension arrangements, as highlighted in the Pension Review section of this report, into a Self-Invested Personal Pension Plan for the reasons highlighted below:

- SIPP's will allow you to exercise substantial control over the choice of investments held under your pension. Whilst you may not use all of the options, you do intend to invest in a broad spectrum of investments and require the flexibility to change your underlying investments in the future without having to switch providers
- The range of permitted investments is much greater under a SIPP than other pension arrangements and you are comfortable paying higher charges to gain access to a broader and more sophisticated range of investment opportunities
- A SIPP is not restricted to the investment choice of one provider. It is a pension wrapper which can contain any investment approved by the HM Revenue & Customs for pension purposes
- It is possible to access the services of a discretionary fund manager via a SIPP, as per your stated objective
- While invested your fund will benefit from tax advantaged growth
- Benefits can be taken at any time from age 55 and the effective requirement to buy an annuity at age 75 was scrapped from 6th April 2011
- 25% of the crystallised pension fund can be taken as a Pension Commencement Lump Sum (tax free cash) payment
- There will be no death benefit tax charge on an uncrystallised pension fund on death before age 75 assuming the total value of the pension benefits are within the lifetime allowance.

This will help ensure your beneficiaries are looked after, financially and in a tax efficient manner, upon your death

- You will receive tax relief on your contributions

## Summary of Recommendations

Having compared the whole of the market place, I have recommended the following for the reasons detailed below:

Ownership	Pension Company	Transfer Rights	Lump Sum		Gross Regular Employee Contribution	Normal Retirement Age
			Protected	Non Protected		
Mr	SIPP	@SIPP	£60,000	£68,000	£50	65

Personal contributions will receive basic rate tax relief at source. Any higher rate tax relief to which you are entitled can be reclaimed directly from HM Revenue & Customs via your Tax Return.

- @Sipp was established in 2001 in the belief that an opportunity existed to create a SIPP administrator providing a bespoke SIPP administration and trustee service. Since @Sipp was established, the company has focused on providing the highest quality service to its clients. As a result of this, the business is already one of the UK's fastest growing SIPP administrators
- They are a market leader in the area of pension provision
- Although the charges of the recommended plan are higher (as detailed under charges and potential benefits), I believe the investment strategy I have recommended and the greater investment opportunities available under the new pension will provide superior net returns over the remaining term of investment
- I believe the additional features and enhanced flexibility associated with the recommended plan more than compensates for any additional charge
- They offer a rebate to the annual management charge when your pension fund reaches a predefined size. For further information, I refer you to the illustration
- The research tool I have used to review the market place identified them as the most suitable and competitive solution for 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 investment opportunities making it simple to vary your investment strategy to reflect changing market conditions, or should your risk profile change in the future
- They provide access to a number of world-leading fund managers and investment houses. This not only provides greater scope to create a bespoke portfolio tailored to your individual risk profile and objectives; but the resultant diversification will also diminish the associated investment risk
- The single consolidated statement associated with a multi-fund investment significantly reduces the typical administration and paperwork associated with a well diversified portfolio
- They provide access to discretionary fund management
- They provide the facility to manage your pension online. Providing access to instant valuations, fund information and other investment analysis tools
- They offer a seamless transition to drawdown pension under this contract which could prove advantageous when it comes to taking benefits in the future

## Investment Strategy

I have recommended that your monies be invested with a Discretionary Fund Manager. Discretionary Fund Management ensures the underlying assets of the portfolio are invested in accordance with your specific risk profile and agreed investment objectives. The portfolio is managed on a regular basis, and all the daily investment decisions are the responsibility of your dedicated investment manager. There are a number of advantages associated with a discretionary fund management including:

- Your portfolio will be professionally managed on a daily basis to ensure it remains closely aligned to your risk profile and continues to reflect your individual needs and investment objectives.
- Provides access to a broad range of funds and assets at institutional terms, some of which are not normally available to private investors.
- Provides access to your own dedicated investment manager offering a more personal service, regular contact and bespoke reporting, including consolidated tax statements.
- Provides the opportunity to dictate investment preferences e.g ethical, exclude tobacco etc
- Allows the investment manager to exist “closer to the market” and therefore switch funds quickly to take advantage of potential investment opportunities.
- Provides a pre-determined agreed benchmark against which performance can be assessed.
- As each transaction within the portfolio is potentially liable to capital gains tax, your investment manager can manage your portfolio to take account of your individual tax position and maximise your annual allowances.

In view of your stated risk profile and investment objectives, I have recommended that the available monies be invested as follows:

Discretionary Fund Portfolio Manager	Portfolio Name	Investment Objective	Risk Rating	Allocation
Brewin Dolphin	Growth Portfolio	To invest in a broad selection of different asset classes with aim of providing tax efficient capital growth over the medium to long term	Balanced	100%

I have recommended the above for the following reasons:

- Brewin Dolphin can date its origins back to the mid 18th century, and is one of the largest independent private client investment managers in the UK, looking after over £23 billion for over 130,000 private clients. They are not tied to any fund managers, banks or insurance companies and are able to deliver completely unbiased investment advice. Their advice is based on insight from their top-class in-house research team and guided by their clear and consistent investment process. The success of their approach has also won recognition in the industry, with recent awards including ‘Best Discretionary Broker’ at the Shares Magazine Awards 2009.
- They provide their investment managers with a degree of flexibility and discretion, whilst having robust control systems in place centrally to ensure they are doing a good job
- They provide access to a broad and diverse range of investment vehicles via their portfolio
- They have a clear and structured process in place for regular reporting
- They offer a high level of flexibility to ensure your portfolio is set up to meet your individual investment goals and requirements

- The charging structure is competitive when compared to similar services in the market place
- The research tool I have used to review the market place identified them as offering the most suitable and competitive service to meet your needs and objectives
- They have provided us and our clients with an excellent service in the past

I recommend that you contact me regularly to review the performance and continued suitability of the recommended Discretionary Fund Management Service.

### **Options Available**

*Pension Contribution Insurance Benefit* - This is designed to help safeguard your pension contributions in the event of you being unable to work through illness or injury for a prolonged period of time, after a predefined deferment period.

*Indexation* – Your regular contributions will increase automatically each year to help ensure your income requirements are met in retirement.

You do not wish to include this option due to the following:

- You did not feel this feature was necessary
- It was agreed that we will review your contributions regularly

### **Contracting-out of S2P**

The State Second Pension (S2P) is an earnings related pension that replaced the former State Earnings Related Pension Scheme (SERPS) in April 2002. It is designed to top up the Basic State Pension and is based on your earnings, and consequently National Insurance Contributions, during your working life.

A private pension can currently be used to contract out of the State Second Pension (S2P), although this will no longer be possible from April 2012. There will be no State Second Pension benefit for any period in which you are contracted out; instead your redirected contributions are invested into your private pension plan. This is a fairly complex matter and the decision to contract out should be reviewed on an annual basis. The decision will depend on a number of factors including your age, attitude to risk, the level at which you believe that your earnings will rise and the flexibility you require at retirement. The government-backed Money Advice Centre provides a Contracting-Out Planner which can help you make a decision about whether you should contract-in or out. This can be accessed at the following web address:

[www.pensionsadvisoryservice.org.uk/online-planners](http://www.pensionsadvisoryservice.org.uk/online-planners)

### **Income requirements in retirement**

The accompanying illustration provides an indication of the income you could receive from the recommended pension plan in retirement. It is important that we review your pension provision on a regular basis as your current level of funding may prove insufficient to meet your stated income requirements in retirement. You should also remember that if you elect to take part of your pension fund as a tax free cash payment, this will reduce the income you receive from the residual pension fund. The illustration does not include your State Pension entitlement. It is possible to obtain a personal forecast of the State Pension you can expect to receive by contacting The Pension Service.

## **Expression of Wish**

I would recommend that you complete an Expression of Wish Form. This will ensure the proceeds of your pension, subject to the trustee's discretion, are paid to your chosen beneficiary on your death.

## **National Employment Savings Trust (NEST)**

The government has announced that all businesses should offer their employees a company pension scheme or enrol them into the new National Employment Savings Trust (Nest). Nest is due to start in 2012, with all firms joining by September 2016. Auto-enrolment will apply to all employees earning more than the personal income tax allowance and both the employer and employee will have to make a contribution, currently anticipated to be 3% and 4% of salary respectively.

The aim of Nest is to provide simple, good value pensions for those who do not currently have easy access to pensions. Although the Act has now been passed, there is still uncertainty about what Nest will look like in terms of investment choices and the level and structure of charges. In view of the large degree of unknowns and uncertainty associated with Nest, I am of the opinion that this in no way affects the above advice, nor should there be any question of you delaying your retirement saving. However, I would strongly recommend that we review your retirement saving on a regular basis. This will allow me to assess your circumstances and objectives and ensure that the above recommendation remains suitable as the implementation date and the design of Nest becomes clearer.

## **Further Information and Risk Warnings**

Further information regarding the recommended product can be found in the Key Features Document provided and the appendix of this report.

For further information regarding the level of contributions that can be made to, how benefits can be taken from, and the taxation of pension arrangements I refer you to the *Technical Notes* in the appendix of this report. A summary of the risk warnings associated with my recommendations can also be found in the appendix of this report.

## **Alternative solutions considered but discounted**

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

### *Stakeholder Pension*

- You are a sophisticated investor and wish to invest in a pension vehicle that offers a wider choice of investment opportunities and the flexibility to take any benefits in a staggered fashion to suit your future circumstances and objectives
- It is not possible to access the recommended investment strategy via a stakeholder pension
- The investment opportunities available via a stakeholder pension are more restrictive than the recommended pension plan
- The range of options available via a stakeholder pension are more restrictive than the recommended pension plan

### *Personal Pension*

- You are a sophisticated investor and wish to invest in a pension vehicle that offers a wider choice of investment opportunities and the flexibility to take any benefits in a staggered fashion to suit your future circumstances and objectives
- It is not possible to access the recommended investment strategy via a personal pension

### *Section 32 Buy Out Plan*

- You do not have an entitlement to a tax free cash payment in excess of 25% under your existing arrangement that requires the protection afforded by a Section 32 Buy Out Plan
- Such pensions do not tend to be as flexible or offer as many options as the other pension arrangements available in the market place

# Important Information

## Remuneration

There are various ways I can be remunerated for my advice and the provision of my services. A summary of these options can be found below and further details can be found in our Service Agreement and “Key facts about the cost of our services” document provided.

### 1. Commission

If you buy a financial product, the product provider may pay my company a commission. Although you pay nothing up front that does not mean the service is free; you are still paying indirectly through the product charges. The amount of commission received will vary depending on the amount you invest and (sometimes) how long you invest for or your age.

### 2. A Fee

Whether you buy a product or not, on completion of my work you will pay a fee for the advice and services you have received. This fee can be paid directly by you, or in the event that you buy a financial product it may be possible to arrange for the recommended product provider to pay the agreed fee directly to my company out of the product charges.

In the event that my company receives a commission from the product provider, this can be passed on to you in one or more ways. For example - It could be used to reduce my fee, reduce the product charges or increase the investment amount. Alternatively I can simply refund the commission to you in full. Please note – You may have to pay VAT on any fees.

### 3. A combination of fee and commission

This is a combination of the above. The fee would be payable by you and the commission by the recommended provider.

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

For the sake of completeness I have also summarised the Adviser Fee payable on the products recommended in this report in the table below:

Company	Product	Amount Invested £	Initial Commission %	Initial Commission £	Annual Commission %
@SIPP	SIPP	£128,000	3%	£3,840	0.5%

The annual commission is a percentage of the fund value and will be paid by the provider. This will go towards covering the cost of the on-going servicing and availability of advice associated with the recommended product.

## **Cancellation Notice**

You have a legal right to cancel your plan if you change your mind. Once your plan is set up you will be sent a "Cancellation Notice" telling you about your right to change your mind and how to cancel. You will then have 30 days (14 days for ISA and Unit Trust investments) in which to cancel. If your investment falls in value before your cancellation notice is received, an amount equal to the fall in value will be deducted.

## **Affordability & Emergency Fund**

You should keep some money immediately accessible to cover any unforeseen emergency expenditure that may arise. I would normally recommend that you retain an emergency fund equal to three month's expenditure within an immediate access deposit account as a bare minimum. I confirm you are happy with the level of your emergency reserve. I would also like to take this opportunity to confirm that the above recommendations are affordable to you.

## **Regular Reviews**

It is important that we regularly review your financial arrangements as your circumstances and attitude to risk will almost certainly change over time. I suggest you contact me at least once a year to review your financial affairs.

## **Financial Services Compensation Scheme ('FSCS')**

The FSCS was set up under the Financial Services and Markets Act 2000 and exists to protect clients of FSA authorised firms and covers deposits, insurance and investments. The scheme can pay compensation to clients who have lost money as a result of their dealings with FSA authorised firms that are unable to pay claims against them, usually because they are insolvent or have stopped trading.

The limit of protection varies between different types of products. For pensions, life assurance and non-compulsory insurance (e.g. home and general), the compensation level is 90% of the claim. The maximum level of compensation on deposit based accounts increased to £85,000 per person per firm from 31st December 2010.

## **Aspects of your financial affairs not addressed but deemed important**

I practice a comprehensive approach to financial planning. I believe it is my duty to ensure that all aspects of your financial affairs have been considered, even those areas that may not be of immediate concern to you. To this end, I would like to draw your attention to the following. If on further consideration you wish to discuss any of the below in more detail please do not hesitate to contact me.

### *Inheritance Tax Planning*

- You did not consider this a priority at the current time

### *Protection*

- You are happy with your existing protection arrangements

### *Wills and Lasting Power of Attorney*

- I understand you have not made a Will. To this end your estate would be subject to the laws of intestacy. This is unlikely to result in your estate being distributed in accordance with your wishes. I would recommend that you contact your solicitor to write a Will as a matter of urgency.
- I have recommended that you affect 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. Having a LPA in place avoids the significant cost and delays associated with applying to the Office of the Public Guardian.

### *Savings and Investment*

- It was agreed that we would address this issue at a later date

### *Mortgage Repayment*

- You are happy with your existing mortgage arrangement

## Confirmation

I have identified your objectives and I hope you agree that the recommendations made correspond to your current needs and future requirements. If you have any queries concerning the content of this report, or should you feel the 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 \_\_\_\_/\_\_\_\_/\_\_\_\_

I the undersigned have received this report. I accept the recommendations and confirm I have received all supporting literature including Key Features Documents, fund fact sheets and illustrations.

Accepted by **Mr A Client**

Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

# APPENDIX

## **Attitude to risk definitions**

My company classifies attitude to risk as follows:

### **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 a 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.

## Risk Warnings – Pension Switching

In addition to the risks shown below, I recommend you read carefully the section entitled “risk factors” in the Key Features Document provided which highlights any possible disadvantages of affecting this plan.

- For a full explanation of the charges and how they affect your plan please refer to your personalised illustration and Key Features Documents.
- The figures on any quotations provided are for illustration purposes only and are not guaranteed.
- The value of the investment is determined by the value of the units, the price of which can fall as well as rise. What you get back is not guaranteed. It will depend on investment performance and the cost of converting your pension fund into an income for life. The value of your investment may be eroded by the effect of inflation over time.
- The recommendations are based on current taxation, law and practice and the current legal and administrative framework and are based on my current interpretation and understanding of those, all of which may be subject to change.
- The recommendations are based on our analysis of your current pension plans for which we rely on information provided by your current pension providers and as such cannot be held responsible for any inaccuracies contained in the information supplied.
- Past performance is no guarantee of future returns.
- When you retire, your pension may be lower than illustrated if:
  - You stop or reduce your contributions.
  - Investment performance is lower than illustrated.
  - The cost of converting your pension fund into an income for life is more than illustrated.
  - You start taking your pension earlier than your chosen pension age.
  - Tax rules change.
  - Charges increase above those illustrated.
- It is important to periodically review the value of your pension against expectations - particularly as you approach your chosen retirement age when it is advisable to transfer some or your entire fund to a more stable investment environment.
- There is no guarantee that the new provider’s funds will outperform those of your existing provider.
- There may be a possible change of fund value whilst the transfer remains pending.
- When undertaking a pension transfer between two different investment companies, there may be a period of a few days where your funds are not invested and your fund could materially suffer as a result of movements in the market.
- The Cancellation Rights include the provision that the company from which the funds have been transferred are not obliged to take them back.
- Where a transfer penalty and / or an initial charge has been incurred, the death benefits provided by the new plan will be less until a time when the investment performance has been sufficient to overcome these initial penalties and charges.
- Where a property fund has been recommended the value of the fund is based on the valuer’s opinion rather than fact. You should be aware property and land can be difficult to sell – so you may not be able to cash-in this investment when you want to. In extreme market conditions the fund manager may have to delay acting on your instructions to sell your investment.
- An investment in corporate bonds is generally less secure than an investment in Government bonds due to the greater possibility of default.

- Where a fund invests in overseas markets, changes in currency exchange rates mean that the value of the investment can go up or down.

## Technical Notes - Pension Switching

There are a number of options available in respect to your existing pension arrangements. A summary of the advantages and disadvantages associated with each option can be found below.

### 1. Do nothing

In so doing, you will remain subject to the same charges, investment strategy and policy features.

#### *Advantages:*

- This is the easiest option administratively as it will not require any further action.
- This will incur no charges.

#### *Disadvantages:*

- Your existing contract may not be very competitive when compared to those available in the current market place.
- This will not assist in the consolidation of your pension arrangements.
- The current funds may not match your investment objectives or desired investment strategy.

### 2. Switch funds within your existing pension plan

You will remain subject to the same charges and policy features. However we could switch the underlying funds to more accurately reflect your investment objectives and desired investment strategy.

#### *Advantages:*

- This will be administratively easier than transferring to a new pension plan.
- This is likely to incur less charge than a transfer to a new pension plan.

#### *Disadvantages:*

- Your existing contract may not be very competitive when compared to those available in the current market place.
- This will not assist in the consolidation of your pension arrangements.
- The range of investment opportunities available under your existing arrangement is limited when compared to other plans currently available in the market place and as such any proposed investment strategy would be a compromise.

### 3. Make your existing plan paid-up and redirect future contributions into a new pension arrangement

In instances where a significant penalty will be incurred on transfer, it may be beneficial to leave the fund accrued to date with your existing provider and redirect any future contributions to an alternative pension plan.

#### *Advantages:*

- Your existing pension fund will not incur a transfer penalty.
- Future contributions can be invested in a more appropriate pension plan.
- Helps to diminish any risk of having "all your eggs in one basket".

*Disadvantages:*

- Administratively this is more involved than an internal fund switch.
- Your existing fund will remain invested in a less advantageous environment.
- Administratively this is more cumbersome than having all of your pension fund invested with one provider.

#### **4. Transfer to a new Stakeholder Pension**

You could transfer your existing benefits into a low cost stakeholder pension.

*Advantages:*

- Charges capped at 1.5% per annum for the first ten years, reducing to 1% thereafter.
- No other charges apply.
- There will be no financial penalty applied on stopping contributions, transfer or early retirement.
- Minimum contribution is £20.
- Very flexible in that you can make regular, or one-off contributions and change regular contributions at any time.
- Fully portable.

*Disadvantages:*

- Administratively this is more involved than an internal fund switch.
- The fund range of a stakeholder pension is very limited and could compromise the construction an investment strategy befitting of your objectives and risk profile.
- Stakeholder pensions offer few "bells and whistles" such as the option to withdraw benefits directly from the pension fund.

#### **5. Transfer to a new Personal Pension Plan**

It is possible to transfer your existing benefits to a personal pension.

*Advantages:*

- As flexible as a stakeholder pension in that you can make regular or one-off contributions and change regular contributions at any time.
- Generally offers a wider range of investment opportunities than stakeholder pensions.
- Generally offers a greater range of features than stakeholder pensions.
- Fully portable.

*Disadvantages:*

- Administratively this is more involved than an internal fund switch.
- Charges may be greater than a stakeholder pension if external investment opportunities and / or other features and benefits are selected.

## **6. Transfer to a new Self Invested Personal Pension Plan**

A self-invested personal pension (SIPP) is a special type of personal pension which allows you to have a greater involvement in the running of your pension and offers a much wider choice of investment opportunities. In addition to professionally managed pension funds, SIPPs also allow direct investment in a selection of additional assets from equities, gilts and commercial property.

### *Advantages:*

- Offers a much wider range of investment opportunities than stakeholder and personal pensions.
- Provides the opportunity to invest directly in a commercial property.
- You will have greater control over where your fund is invested.
- Generally offers a greater range of features and options than stakeholder and personal pensions.
- Fully portable.

### *Disadvantages:*

- Administratively this is more involved than an internal fund switch.
- Charges tend to be greater to reflect the greater number of options that are available.

## **7. Transfer to an employer's pension scheme**

If you have access to an employer's pension scheme, you could consider transferring your existing pension benefits into this arrangement.

### *Advantages:*

- Will assist in the consolidation of your pension arrangements.

### *Disadvantages:*

- The company scheme may not be very competitive when compared to other arrangements available in the current market place.
- The range of investment opportunities available may be more limited when compared to other propositions currently available in the market place and as such any proposed investment strategy would be a compromise.
- You may wish to keep your other pension arrangements private from your employer.
- You may not wish to put "all your eggs in one basket".
- You may not get to select when and how you take your retirement benefits if these are set by the scheme trustees.
- You may not get to choose where your pension savings are invested if this is decided by the scheme trustees.

## Technical Notes – Pensions

On the 6th April 2006, commonly known as A Day, the government introduced a new set of rules in an attempt to “simplify” the pensions market and provide increased flexibility for individuals in retirement. These included a complete overhaul of the previous pension regimes, which have now been replaced by a single set of rules governing the level of contributions that can be made, how benefits can be taken and the future taxation of pension schemes. A number of these rules have subsequently been revised and a current summary of the main legislation relating to pensions can be found below.

### State Pension Age

- Historically the State Pension Age has been 60 for women and 65 for men. Between 2010 and 2018, the State Pension Age for women will increase to 65 to ensure equality. The State pension age is planned to further increase to age 66 by 2020 for both men and women.

### The Lifetime Allowance

The lifetime allowance is the limit on the total amount of pension benefits you can draw from before tax penalties are applied. Excess benefits are subject to a recovery (tax) charge on the balance over the lifetime allowance. The charge is 25% or 55% depending upon whether the excess benefits are taken as an income or a lump sum.

- The lifetime allowance is currently £1.8 million.
- The lifetime allowance is due to be cut to £1.5 million from April 2012.
- Pensions in payment before A Day will be multiplied by a factor of 25:1 to determine the notional fund value against the allowance.
- Enhanced or Primary Protection may have ring fenced benefits from the lifetime allowance.

### Contributions

- There is no difference between different types of pension schemes. It is possible to contribute to both a personal pension and a company pension at the same time.
- Individual contributions are unlimited. However there is a limit on the amount of gross contributions that an individual can pay each tax year and receive full tax relief upon. This is restricted to the higher of £3,600 or 100% of salary – subject to the annual allowance.
- The annual allowance for the 2011/12 tax year is £50,000. It is possible to offset one-off spikes in contributions in excess of the annual allowance against unused allowances from the previous three years.
- Contributions or accruals in excess of the annual allowance are subject to a tax charge at the member’s marginal rate of tax relief. This applies to contributions made by the employee or employer.
- Employer contributions count towards the annual allowance. Also, it is up to the Employer's local inspector of Taxes whether or not the entire contribution will be relievable for tax purposes. The HMRC website suggests that a pension contribution when considered as being “wholly and exclusively for the purposes of trade” will qualify for tax relief. Only where there is a clear non-trade purpose may tax relief be restricted or not allowed. Even where tax relief is granted large employer contributions could have the tax relief spread over a number of accounting periods.
- In measuring “defined benefit schemes” against the limit, any annual increase in the pension benefit is multiplied by 16 to convert it to its contribution equivalent.

- No tax relief will be granted on contributions paid after age 75.

### **Retirement Ages**

- From 6th April 2010, the earliest retirement age rose from 50 to 55.
- It is still possible to take benefits exceptionally early on the grounds of permanent ill health.
- Those with a Protected Rights pension can take these benefits from the minimum retirement age, instead of 60.
- It is possible, if scheme rules allow, to take benefits and continue to accrue benefits while in the same scheme, before or beyond normal pension age.
- Compulsory annuitisation by age 75 has been scrapped.

### **Retirement Benefits**

- From 6th April 2011 the effective requirement for members of registered pension schemes to secure an income, usually by purchasing an annuity with their pension fund, by age 75 has been removed. It is now possible to draw retirement benefits (income and lump sum) after your 75th birthday.
- A new retirement framework of Capped and Flexible Income has replaced the previous income limits for Unsecured Income and Alternatively Secured Pension. Capped Income allows a maximum income equating to 100% of the prevailing annuity rate to be withdrawn from a pension fund in any given policy year. Flexible Income allows those who meet a minimum income requirement (MIR) to take income without limit from their pension fund. The MIR has been set at £20,000 or relevant.
- The whole of an individual's pension fund can be taken as cash (25% of which will be tax free) under the triviality rules provided their entire pension fund is not more than £18,000. The individual has to be at least 60 years old.

### **Tax-free lump sums**

- It has been possible to take a tax free cash (Pension Commencement Lump Sum) payment of 25% of the fund value from any pension since A Day.
- It is possible for an individual to protect any entitlement to a Pension Commencement Lump Sum payment in excess of 25% accrued prior to A Day. However detailed records have to be held and the protection can be lost on transfer.
- HMRC have established a fiddly anti-avoidance rule for the "recycling" of Pension Commencement Lump Sum payments. Significant contribution increases over 30% of the lump sum, where a Pension Commencement Lump Sum payment taken in the previous twelve months exceeds 1% of the lifetime allowance will be scrutinised.

### **Death Benefits**

- On death before age 75, there will be no death benefit tax charge on an uncrystallised pension fund, assuming the total value of the pension benefits are within the lifetime allowance.
- Death on or after your 75th birthday will result in a tax charge of 55% on all uncrystallised pension benefits.
- The same 55% tax charge on death will also apply to any crystallised pension benefits, regardless of age.

## **Investments**

- There is a single set of investment rules which, subject to DWP (Department of Works and Pensions) requirements, apply to all registered pension schemes.
- Any personal use of an asset other than on commercial terms will give rise to an income tax assessment, like a benefit-in-kind.
- There is no ban on transactions between connected persons.
- Small business owners and professional partnerships can transfer their own business premises and company shares into their pension pots.
- Scheme borrowing is limited to 50% of scheme assets.

**If you have opted for any form of “protection” either enhanced or primary as a result of A Day it is important that you inform me of this fact, as this could affect my advice concerning your pension planning.**

## Notes on financial products

### Self-invested Personal Pension Plan

A self-invested personal pension (SIPP) is a special type of personal pension which allows you to have a greater involvement in the running of your pension and offers a much wider choice of where to invest your pension savings.

Individual contributions are unlimited. However there is a limit on the amount of gross contributions that an individual can pay each tax year and receive full tax relief upon. This is restricted to the higher of £3,600 or 100% of salary, subject to an annual allowance of £50,000 for the current tax year. It is possible to offset one-off spikes in contributions in excess of the annual allowance against unused allowances from the previous three years. Employer contributions count towards the annual allowance. Also, it is up to the Employer's local inspector of Taxes whether or not the entire contribution will be relievable for tax purposes. Individuals are subject to a tax charge on the amount of any contribution (both individual and employer) paid in excess of the annual allowance each year. The tax charge will be at the member's marginal rate of tax. No tax relief will be granted on contributions paid after age 75.

A pension is one of the most tax efficient ways of saving for your retirement. Contributions qualify for tax relief at your highest rate of income tax, subject to the restrictions outlined above. Contributions are paid net of basic rate tax and the pension provider collects the tax relief from the HM Revenue & Customs. This means that for every £80 you contribute, £100 will actually be credited to your plan. Any higher rate tax relief to which you are entitled can be reclaimed through your annual Tax Return. Growth in the value of the pension fund is free from capital gains tax and certain types of dividends paid to the plan are free from income tax.

Benefits can usually be taken from age 55, including while you are still working. At that time you can elect to take 25% of the accumulated fund as a Pension Commencement Lump Sum (tax free cash) payment. The remainder of the fund may be used to purchase an annuity, which can be established on a basis to suit your individual circumstances and objectives at that time. Alternatively you can choose to take the benefits directly from your pension fund via a more flexible retirement plan. The effective requirement to buy an annuity by age 75 was removed from 6th April 2011.

On death before age 75, there will be no death benefit tax charge on an uncrystallised pension fund, assuming the total value of the pension benefits are within the lifetime allowance. Death on, or after your 75th birthday will result in a tax charge of 55% on all uncrystallised pension benefits. The same 55% tax charge on death will also apply to any crystallised pension benefits regardless of age. Under normal circumstances, no inheritance tax liability will arise from pension death benefits unless HMRC believe that an individual has deliberately deferred the crystallisation of their pension benefits to avoid tax charges. If the individual is married or in a civil partnership when they die, the whole of any protected rights fund must be used to provide an income, either by purchasing an annuity or drawdown pension.

SIPPs are allowed to invest in a variety of ways and "connected person transactions" are now allowed provided they occur at "arms-length". The permitted investments include:

- Stocks and shares traded on any recognised stock exchange.
- Futures and options relating to stocks and shares traded on any recognised futures exchange.
- Units in an authorised unit trust.

- Shares in OEICs.
- Policies of insurance linked to unit-linked or investment funds of an insurance company resident in the UK.
- Traded endowment policies transacted with a person regulated by the FSA.
- Cash deposits in any currency.
- A freehold or leasehold interest in commercial property (including land) where the interest is acquired from any person other than a member of the scheme or a person connected with him.
- Ground rents, rent charges, ground annuals, feu duties or other annual payments reserved in respect of, or charged on, or issuing out of property except where the property concerned is occupied by a member of the scheme or a person connected with him.
- Individual pension accounts.

### **Property Investment via a SIPP**

It is possible to invest directly in commercial property via a SIPP. The following should be considered when undertaking a commercial property purchase via a SIPP:

- The rent accumulates tax free within the scheme and the subsequent disposal of the property is exempt from capital gains tax.
- The lease must be on commercial terms and the administrator of the SIPP is required to take independent advice on the terms of the lease and the rent payable.
- Letting a property to a member's own business can also bring additional risks. If the business fails, the pension scheme may suffer investment losses as well as a reduction in future contributions.
- Investment in a single undertaking or having one investment as a large part of a scheme's assets brings considerable risk.
- Investment in commercial property needs to be treated with particular care. A property's potential marketability must be considered carefully because it will have to be sold before an annuity is secured.
- The problem can become even greater when several members effectively hold the property within their fund as often happens in a partnership.

A SIPP may only borrow towards the purchase of a freehold or leasehold interest in commercial property to be held as an investment of the scheme. The amount borrowed must not exceed 50% of the value of the individual pension assets.

# **Investment Fund / Portfolio Information**