INFORMED Magazine
KEY NEWS AND INFORMATION FOR COMPANIES

"Is it time for a *quiet conversation?*"™

LEBC Group: THE FIRST FIVE YEARS

It comes as quite a surprise to many of us within LEBC Group that on 1st June 2005 we celebrated our first five years of succesful trading.

It hardly seems like five years ago since a number of us set out with a vision to create a National Independent Financial Advisory Business founded on the core beliefs that were common to us all. We tried to encapsulate these core beliefs in an initial statement. We stated that:

"LEBC Group is an organisation dedicated to providing expert, independent financial advice to all of our clients. This is achieved through our consultants, who advise from a position of informed expertise, underpinned by the highest ethical standards.

The independence of LEBC Group ensures that our consultants always act in your interests, and in your interests alone. The client relationship is of paramount importance to us. To be sensible, advice must be delivered in a long term relationship of mutual trust.

The creation and maintenance of such relationships is our aim."

We went on to try and capture this more succinctly in the phrase **"Professional relationships prospering through knowledge, experience and trust."**

At the heart of what we were trying to do within LEBC Group, was to put you at the centre of our business.

To create a business, a financial advisory business, that put the client first and sought to provide the client with advice in a long term relationship rather than in one off bits of advice, driven by product sales, which is where we saw the market being driven.

"AT THE HEART OF WHAT WE WERE TRYING TO DO WITHIN LEBC GROUP, WAS TO PUT YOU AT THE CENTRE OF OUR BUSINESS."

And so, after five years we are still here, thanks completely to you valuing the services and advice that we have provided and are committed to continue to provide. One of the aspects of providing advice in a long term relationship, is that our relationship should continue to evolve.

For some time now, while we felt that our mission statement captured what we were trying to do, we felt that it still lacked a certain focus. To that end, after a great deal of research, we are delighted to introduce our new strap line; We are launching the "Quiet Conversation."

The phrase **"Is it time for a Quiet Conversation?"** will now appear on all LEBC Group literature. The aim of the Quiet Conversation strap line is to bring a focus to that long term relationship.

From discussion, and research, we have come to understand that while our clients appreciate all of the work we do on a day to day basis behind the scenes working away on their affairs, it is the "Quiet Conversation" that is for you the focus of our relationship.

It presents the opportunity to sit down, away from the day to day buzz of business, and to focus quietly for a few hours on planning ahead for the future.

It is certainly about emphasis, but we also feel that it adds something more to the understanding of the LEBC Group propositions, and we hope you will agree.

We look forward to having many more Quiet Conversation's with you all.

Jack McVitie
Chief Executive

IN THIS ISSUE:

WHAT A DIFFERENCE 'A-DAY' MAKES

On 6th April 2006 all existing tax rules governing pension schemes will be replaced by new ones. This has been dubbed "A Day" and will mark a watershed in retirement planning. This will affect every single pension in the UK. How will it affect you?

There will be winners and losers. Some existing rules will favour the taxpayer before A Day for the others new rules will be better.

How will it affect you? Do you need to take action before A Day to safeguard your retirement funds and maximise tax planning opportunities? Would you be better off waiting until afterwards to take advantage of the new rules?

These are questions which anyone with any pension benefits already accrued or any one who wants to start planning for retirement must ask (well) before A Day.

There is no single answer. To start the process why not take advantage of an "A Day Audit" See opposite, "Your Life History for Cash".

There has been much publicity surrounding the opportunity to invest in residential property. This does not happen until after A Day but you may be able to build up a bigger fund before A Day to invest afterwards – see "Property Purchase New Opportunities".

Should you bring your retirement date forward or move it back to improve your benefits? Some alternative scenarios are explored in "Should I stay or should I go?"

One long standing objection to pension planning has always been the thought of losing a substantial fund on death. Whilst this does not have to be the case even under current rules, more flexibility is planned for the future – "At Last the Inheritable Pension" explains how. Finally, if all these rules changes are giving you a headache, "Pension Planning a Mid Life Crisis" shows how the over 50's can access some of their funds early.

A Day, just 24 hours, can make a big difference to your retirement planning options. The message is start finding out now how it affects you and what action you can take both before and after to make the most of the old and the new rules. After A Day your options may be limited. Call your usual LEBC adviser or email pensions@lebc-group.com to get started.

AT LAST, THE INHERITABLE PENSION

One of the main objections to putting money into pension plans looks like being removed by the Pensions Simplification changes from April 2006.

The problem with pensions was always the thought that you could pay into the plan all your life, retire at 65 and then drop dead at 66, effectively losing most of your money. Annuity providers keep on about life expectancy and that an average man retiring at 65 can expect to live to 85 but we all know that this is not always the case. Under current pensions legislation, annuities have to be purchased by age 75 at the latest. After that, the pension fund is effectively lost on death, or at the end of the guaranteed period.

From 6th April 2006 it will not be necessary ever to buy an annuity from your personal pension fund. Alternatively Secured Pension (ASP) should be available which will mean that a member can take income from his fund throughout life and then, on death, the remaining fund can be used for the benefit of 'other members of the scheme'. This could include children, grandchildren, nephews, nieces etc. In fact virtually anyone who has been included in the pension arrangement.

As far as we can see, ASP will mean that the remaining funds on death will be transferred to the pension fund of these named individuals. The money will still be subject to the pension rules and cannot be withdrawn other than to provide retirement benefits. The income that can be taken under ASP during lifetime however looks like being limited to 70% of that from an annuity.

Nevertheless, the introduction of ASP, coupled with the opportunity to invest in holiday homes or residential property, opens up considerable scope for tax planning.

We are still awaiting final details of how this new opportunity will work in practice but the principle looks clear – the inheritable pension is here at last.

WANTED! YOUR LIFE HISTORY FOR CASH

Fact or Fiction?
LEBC Group can only deal in facts but it is true we want your life history. Well at least as far as your working life history goes.

The new legislation which comes into effect on the 6th April 2006 will affect everyone who has any kind of current or preserved pension benefit. By taking action now you potentially can preserve more generous levels of tax-free cash which are currently available.

LEBC Group has the facility to give you the most appropriate advice, but we need those life stories first.

You get to remember all those interesting, boring, demanding, demeaning occupations and we get to do all the hard work.

The key areas are your current pension arrangements and all those little pots of money you have accumulated along the way.

Our service will examine how you should take your benefits, when to preserve or change what you have and what you can expect from the pre and post A Day regulations.

Directors Plans, Appropriate Personal Pensions, Additional Voluntary Contributions, Final Salary Schemes, Money Purchase Schemes Buyout Plans: everything is affected. We will do the calculations, give you the advice and make the necessary changes, for an agreed remuneration.

If you would like to find out more, contact us at **pensions@lebc-group.com**. We will then put you in touch with your local office.

Its not often you have the opportunity to take advantage of changes in legislation, so don't miss this chance.

Contact us now **pensions@lebc-group.com**

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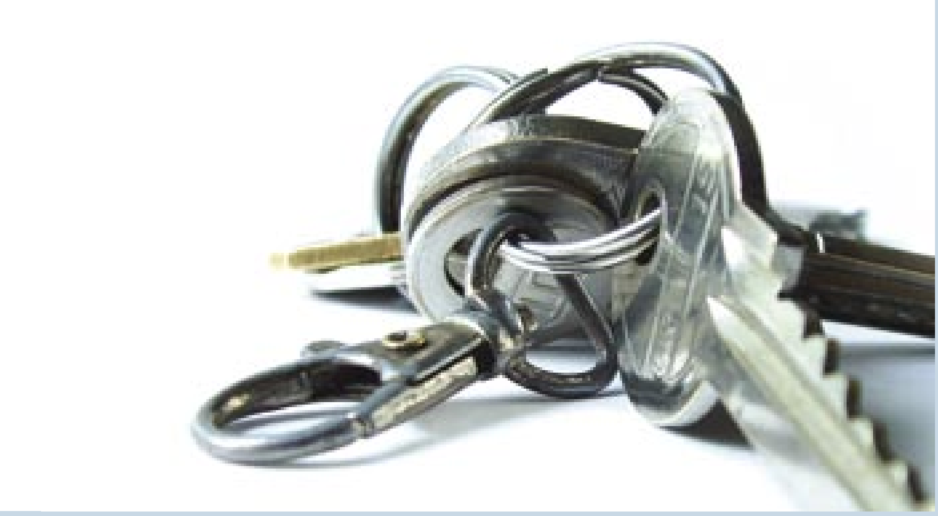

PROPERTY PURCHASE: NEW OPPORTUNITIES

It is already possible to invest in commercial property within a pension scheme and to borrow to fund the purchase.

From April 2006 it will also be possible for a pension to invest in residential property, including holiday homes, buy-to-lets and properties already owned by the member.

The benefits of owning a property within a pension scheme are:

- Tax relief is granted on the contributions made either by an employing company, employee or self employed individual at the highest rate applicable.
- There is no tax to pay on the rental income received by the scheme.
- There is no capital gains tax to pay on the growth in the value of the property.
- Up to 25% of the accumulated fund can be taken as a tax-free lump sum.
- The balance of the fund must be taken as a taxable income.
- Before age 75 the fund is exempt from inheritance tax in the event of the death of the member prior to drawing retirement benefits.

A market rent must be charged for the property and development of the property will have to be supported by a solid business case.

Before April 2006

Commercial property can be owned within a pension scheme. Property held by a pension can be leased to the business of which the member is proprietor, partner or employee at market rent.

Borrowing can be used to support the purchase up to certain limits. The interest on the loan being repaid by the rental income. In some cases the limits on borrowing will be higher before April 2006 compared to afterwards. Those seriously considering commercial property purchase should therefore see whether they would be better to bring this forward before April 2006 rather than leave it until afterwards.

After April 2006

All forms of residential property will be allowable as a pension investment. It will also be possible to use property already held by the member as a pension contribution.

The change of rules to allow pension funds to buy from connected parties will enable the self-employed or partnerships to sell their business properties to their pension funds. Assets will be transferred equivalent in value to the monetary amount of the contribution with CGT and stamp duty liable on the monetary amount. The member would have to pay income tax on the benefit-in-kind derived from any personal use of the property.

The changes in legislation will generally make it easier to include property as a pension scheme asset and to gain all the tax privileged treatment as outlined above. In some cases the current rules are more generous and you should therefore consult with LEBC to decide whether you should act before or after April 2006.

To take maximum advantage of borrowing to finance investment in commercial property, the investment must be completed before 6 April 2006.

PENSION PLANNING: A MID-LIFE CRISIS

We continue to receive information on the proposed new pensions legislation applicable from 6th April 2006.

Much attention has been drawn to the new lifetime allowance (maximum pension fund) of £1,500,000 and ways to protect pension funds above this level. However, the new legislation will bring substantial advantages (and some disadvantages) for those with significantly less in their pension pot.

Just one example is the break between 'drawing benefits' and leaving service. Historically, it was necessary to leave service in order to draw benefits from most company pension schemes. Now you can take the money and go on working and if you wish, go on contributing.

Take Mr. Smith who is just 50. He has £100,000 in his pension on 6th April 2006. He can take 25% (£25,000 tax free) to buy a boat, fund his daughter's wedding or go round the world or whatever. With the 75%, he need take no income – no annuity, nothing, zilch!. The money can just grow and he can still contribute into his pension.

Alternatively, he can draw the pension income which will be subject to tax and pay it back into his pension to generate tax relief.

If we assume he just takes the tax-free cash sum, £25,000, the balance of the fund (£75,000) can simply grow until he actually retires. Lets assume he goes on to age 65. His £75,000 has now grown to £120,000 and he has built up a further £60,000 of post 'A' Day contributions.

At eventual retirement at 65 he can take another £15,000 in cash (25% of £60,000), leaving a total of £165,000 to invest for income or buy an annuity. With people living longer and needing to work longer to amass a reasonable pension, the ability to take a tax-free cash sum to finance a mid life crisis might be attractive.

Birmingham: 0121 237 1300
Bristol: 01275 371 871
Edinburgh: 0131 226 8300
Leeds: 0113 232 1100
Leicester: 0116 247 3600
London: 0207 891 2661
Manchester: 0161 233 7090
Plymouth: 01752 607 660

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SHOULD I STAY OR SHOULD I GO?

Deciding whether to bring retirement forward to before 6th April 2006 or delay it until afterwards can have a big impact on your benefits and especially your tax free cash.

Go Go Go

Example: Paul Lewis has worked for the same firm in the city for 30 years and now 59 he is looking forward to retirement in December 2006. He has been a member of his final salary scheme but typically this only provided pension benefits in respect of his basic salary. Paul has also earned substantial bonuses over the years and had the foresight to make Additional Voluntary Contributions (AVCs) in respect of these. His AVC fund is now worth over £600,000 and given average earnings of £400,000 he will be able to take the whole AVC fund as cash if he takes it before A Day. After A Day the calculations change dramatically, and the maximum tax-free cash which Paul would be entitled to could be affected by new legislation. The balance of his AVC funds would have to be converted to an income which will be subject to tax on receipt. This scenario of relatively low basic salaries compared to high levels of bonuses is not uncommon where it is increasingly the norm to have most of the reward paid by means of performance related bonuses (which are not subject to inclusion in the pension scheme benefits).

It would be possible for Paul to protect this higher level of cash by applying for enhanced protection but this would mean that he would no longer be able to participate in the firm's schemes for future service. Where there is a relatively short period after A Day to normal retirement date for many senior employees, they may be better off to go early and enjoy an extended retirement period than to slog it out until normal retirement age. Paul, therefore, needs advice on the implications of the legislative changes to his own retirement planning, from LEBC Group Limited.

For younger employees the option of earlier retirement may not be possible and they must consider whether they wish to apply for either enhanced or primary protection to protect those benefits in excess of the new lifetime limit. Even those on modest salaries may find that the tax free cash they have accrued due to their pensions history means that they can currently have more than 25% of their equivalent fund value as cash. It is particularly likely to be the case if career earnings have fallen.

By registering higher amounts of tax-free cash within certain schemes it is possible to preserve them beyond A Day. However, such registration must be decided as soon as possible and acted on by 6th April 2006 and no later than April 2009.

Stay Stay Stay

Example: Michael Jones has also been with the same firm for most of his working life and has good pension benefits built up. Two years ago he was divorced and his ex-spouse received a pension sharing order. This means that although more than half of Michael's pension was granted to his ex-spouse he is technically over funded under the current pre-A Day rules and cannot accrue any further benefits in the scheme. If he were to retire before A Day then his pension and tax free cash would be severely restricted.

By registering higher amounts of tax-free cash within certain schemes it is possible to preserve them beyond 'A Day'.

By delaying his retirement to after A Day the new rules on pensions sharing orders will come into effect and will mean that the part of his pensions given away will no longer be counted as his towards the maximum allowed. This means that it is possible to fund for additional pension through additional voluntary contributions which can then be taken after A Day in the form of both cash and pension and uplift the total pension benefits which Michael can receive with the benefit of tax relief. Michael, therefore, needs advice from LEBC Group Limited before "A" Day.

Stay

Example: Marian Joseph has only worked part time and her pension benefits are relatively modest. She has a fund of only £10,000 built up in a stakeholder pension thus far. Marian will be 60 in January 2006 and was planning to take her benefits then. If she does then the maximum tax free cash allowed is £2,500, the balance of the fund will have to be used to provide her with a pension. As this is a relatively small amount it is unlikely that she will be able to get a particularly high level of income from it and any income which she does receive will be subject to tax on receipt. If she waits until after April 2006 Marian will be able to take the whole of her fund as a lump sum. The first 25% will be tax free with the balance being subject to a tax charge. The relaxation of these rules means that it is worthwhile for Marian to add a further years contribution to the plan in order to gain £792 more tax relief and still remain below the £15,000 limit at which full commutation of the pension is allowed at retirement. Marion needs advice before "A" Day from LEBC Group Limited.

Best of Both Worlds

Example: Philip Jones is the owner of his own business and has so far done little to fund his Retirement. He has spent the last few years building up his business and is now making good profits. He will be able to make the most of both the old and new rules by making a maximum contribution now under the old occupational scheme rules. He can fund for his back service with a one off company payment of up to £500,000 which would enable him to boost his retirement funding. This will qualify for corporation tax relief and the contribution will not be treated as a benefit in kind for tax purposes.

After A Day his firm will be able to contribute up to £215,000 per annum for his pension benefits and again will not have to pay any income tax or corporation tax or national insurance in respect of this contribution. Taking advantage of both pre and post A Day rules Philip will be able to build up a substantial fund very quickly which will enable him to catch up on his previous lack of funding. By delaying his retirement date beyond April 2006 he will be able to take up to 25% of the accrued fund as a lump sum immediately but also to be able to carry on working in his business after A Day. This is because the current rules which prohibit controlling directors from continuing to work after taking benefits cease to apply at "A" Day. Philip needs advice before "A" Day from LEBC Group Limited.

Equally the existing rules which link employer contributions strictly to salary as opposed to dividends will also disappear after A Day enabling employers to make generous tax receivable contributions regardless of schedule E income

These examples are for illustrative purposes only and should not be construed as financial advice.