

“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 successful 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.

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

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“Is it time for a *quiet conversation?*”™



WELLBEING IN THE WORKPLACE

The Health of your staff has never been more important. Employee Litigation appears to be on the rise,

absence levels are reported in the media to be at an all time high and the potential costs to employers who do not make adequate provision for themselves and their employees is of a concern.

Legislation under the disability discrimination act dictates that employees are treated consistently and fairly. If employees are treated differently then you run the risk of a potential discrimination claim against you.

Traditionally Private Medical Insurance, Permanent Health Insurance and Group Life Assurance haven't particularly supported the employer in managing employee wellness. They have been purchased in isolation to provide an employee benefit and or financial stability.

LEBC Corporate Healthcare Solutions understands the welfare issues facing UK employers. We are able to develop comprehensive solutions for businesses; which not only help employers manage the costs associated with absence but also encourage a healthy workforce.

We are able to form a coherent "Employee Welfare" proposition for our customers thus helping employers manage a healthy workforce. The aim of the advice we give is to help employers minimise the cost of sickness, through reduced incidences and to manage absence more effectively. A typical wellness model consists of 5 key areas Awareness, Prevention, Diagnosis, Treatment and Management.

By the introduction of a cohesive Sickness and Absence management program, specifically focussing on the cause as opposed to the effect. Absenteeism can be reduced and managed where employees can maintain an all round better level of health.

HEDGE FUNDS

For many years hedge funds were shrouded in mystery and seemed to be only for the initiated or the very wealthy. However, a growing number of investors are now putting monies into these funds which have seen dramatic growth in the last 12-18 months. Why is this and what are they?

They came to the fore with strong performance during the declines of the stock market earlier this century. Hedge funds are collective investments (just like a unit trust) but they aim to produce profits in a variety of market conditions not just when equities rise. They do this by a number of methods including leverage, short selling and derivatives. Names which many people have heard of but don't really understand and therefore, quite understandably have some concerns about them. So what are these mysterious financial instruments?

Leverage, also known as gearing is borrowing money to invest. If it works investors get the benefit of the increased return from this borrowing.

Short selling, this seeks to exploit the timing gap which exists within the stock market between the point in time when you strike a deal and when it actually goes through. A fund will "borrow" a share (for a one off fee) and then sell it in the expectation that its price will fall. The fund will then buy the stock at the lower price and return it to the original lender and make a profit.

Derivatives, these include options. These seek to achieve the same aims as shorting and can be used to limit a fund's level of risk.

As the name implies, hedge funds were originally conceived in order to protect investors from falls in asset value. Over many years funds have changed and developed and there are now a variety of hedge funds with differing risk profiles.

One very attractive option that is available is to use a Fund of hedge funds. Here monies will be invested in a range of hedge funds with different styles and different managers. This brings with it much greater diversification and improves liquidity.

Whilst many investors should consider hedge funds as part of their overall portfolio it must always be remembered that they are not a panacea, if they were it would be easy. However, many investors steer clear of them feeling that they are too esoteric whereas in fact if bought properly can reduce the risk profile of an individual's portfolio.

The above is based on LEBC Group's understanding of the Pensions Simplification Proposal as of 1st June 2005. While we are confident that it is accurate and up to date, the Pensions Simplification Process and any relevant legislation are subject change in the future.

The comments in this Newsletter are for information purposes and should not be construed as recommendations or advice.

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.

MORTGAGE SERVICES

The provision of mortgage advice was regulated in 2004.

LEBC Group Limited has been authorised to provide mortgage advice. If you are thinking of moving house and/or remortgaging, please contact us for the latest offers.

Variable rates, fixed rates, capped rates are all available and we can discuss with you the best option in your own particular circumstances. LEBC Group acts as a "Mortgage Adviser" only. A broker fee will be charge for the advice, typically 0.5% of the amount borrowed; an introducer fee paid to LEBC GROUP by the lender normally offsets this.

Your home may be repossessed if you do not keep up repayments on your mortgage.

The Key to Investment Returns

Investing in fast growing economies has often been seen as way to riches, albeit with considerable risk. However, if we look back it is actually the slower economies that have delivered better gains.

The best stock market returns over the last 105 years came from Australia and Sweden, which were in the middle or lower ranks for economic growth.

What does this tell us about the next 105 years or even the next twelve months? Absolutely nothing. Past performance is never a guide to the future whether you look at individual stocks or global economies. A fully diversified portfolio is the only answer with investments that are ideally not correlated in any way. In other words, when one market goes up you expect the other to go down but overall stability of capital is maintained.

Balanced mandates can be provided by LEBC Group for investments of £10,000 and above using packaged products. Please contact us for further details.



PROPERTY PURCHASE WITHIN A PENSION

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.

Summary

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

To take maximum advantage of the opportunity to invest in residential property, it will be necessary to build up pension funds in advance of April 2006.

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LOOK BACK TO PLAN AHEAD: IHT AND THE '14 YEAR' RULE

It is of course well known that gifts may be subject to inheritance tax if they are made in the seven years prior to the donor's death.

What some find more confusing is that gifts made up to 14 years before death may also increase an IHT liability, although they won't be taxable in their own right.

In this article, we look at when this will happen. We also consider why occasionally, whilst we generally think that gifts should be made sooner rather than later for IHT purposes, it may be wise to delay.

The 14 year problem arises because of the cumulation principle, and applies where a chargeable transfer (CLT) has been made, and the CLT is followed within seven years by another CLT or potentially exempt transfer (PET), and death occurs within seven years of the latter gift.

This is best explained with an example:

Jane made a chargeable lifetime transfer of £100,000 on 1 July 1995. (No IHT was payable at the time as this was within the nil-rate band) She also made a PET of £200,000 on 1 June 2002. She dies on 1 December 2004, leaving an estate of £200,000.

Calculating the IHT liability on death

As usual, we need first to identify the earliest transfer made within seven years of death, and calculate any tax due on this transfer. In Jane's case, this was the PET made on 1 June 2002, the amount of which was £200,000.

The amount of the nil-rate band (as at the date of death) was £263,000, (currently £275,000 – 2005/2006). But,

we must also take into account Jane's cumulation at the time the PET was made. The cumulation is the total of chargeable transfers made in the seven years prior to the PET (which includes transfers which were chargeable at the time they were made, and, for this purpose, PETs which have become chargeable because they were made within seven years of death). PETs made more than seven years prior to death can be ignored.

Jane's cumulation is £100,000, which reduces the available nil-rate band to £163,000. The £37,000 of the PET not covered by the nil-rate band is taxable at 40%.

When we look at the death estate, the PET will reduce the nil-rate band available by £200,000. The tax on the estate not covered by the remaining nil-rate band is £54,800, giving a total IHT bill of £69,600.

This leads to an interesting planning consideration

On 1 June 2002, we find Jane sat contemplating making her £200,000 PET. Supposing, remembering that a CLT was made just less than seven years ago, she delays making the PET until 2 July.

This PET would still become chargeable on her death in 2004, but, when we look back to calculate the tax payable on this PET, her cumulation will be nil, because transfers fall out of the cumulation after seven years.

The full nil-rate band of £263,000 will be available, so that no IHT is payable on the PET, and £63,000 of the band remains to set against the estate. The IHT liability is now only £54,800, a saving of £14,800.

It is generally the case that IHT planning should be carried out sooner rather than later, to set seven the year clock ticking. Delaying the second gift by, in this case, just a month has resulted in a significant IHT saving, so when making a gift, it will always be worth looking back to consider the most efficient timing of the gift. It must also be remembered that delaying a PET will mean that the seven year period before it becomes fully exempt will also move forward. Ideally, perhaps Jane could have gifted an amount equal to the remaining nil-rate band on 1 June, and the balance on 2 July.

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THE CHILD TRUST FUND

Children born after 1st September 2002 are being given a voucher from the Government for at least £250 to invest until they reach 18.

Lower income families may get more. Parents then have twelve months to decide where to invest the money. The basic choices are a deposit account with a Bank or Building Society or units in a fund linked to the stock market.

The money in the trust fund is 'locked away' until the child is 18 and cannot be accessed before then.

Indications so far suggest that most parents will err on the side of safety and opt for the deposit account. However, over an 18 year period, all statistics say that the stock market might be a better place.

However, whatever choice is made, £250 invested over 18 years is not going to do much more than pay for the 18th birthday party. The cost of further education (and eventual property purchase) make it essential that parents and grandparents start early in financial planning for their youngsters. Adding to the Child Trust Fund is just one option that can be explored. Any additional money invested will no longer belong to you but to the child you invested it for.



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.

Every care has been taken to ensure that information given in this document is correct and in accordance with our understanding of current and proposed legislation and Inland Revenue Practices as at date of publication. Independent confirmation should be obtained before acting or ref

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