

# 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.

**“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

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



## 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.

## PERSONAL TAX SERVICE

**Tax returns tend to get more complicated as we get older, especially if there are pensions, shares etc., to be dealt with.**

At LEBC Group Limited we can offer a personalised tax service at a competitive cost.

We can complete the various tax returns on your behalf to ensure that all relevant reliefs are obtained. Please contact us at LEBC Group for further information.

This service is essential for people who have complicated tax affairs and/or do not have the expertise in this specialist area.

Apart from regular tax returns, our experts can advise on 'one off' situations such as Inheritance or Capital Gains Tax.

## 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 to 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.

## AVOIDING THE AGE ALLOWANCE TRAP

**Those aged 65 and over qualify for additional personal income tax allowances. At that age you can earn £7,090 per annum income before any tax is payable.**

This compares with the standard personal tax allowance of £4,895 (2005/2006 tax year). At 75 it increases to £7,270. Unfortunately many older people lose these additional tax allowances simply because they have too much income in savings accounts which are fully taxable.

This is likely to be the case if most of your savings are in building society accounts where all interest is subject to income tax. Once your taxable income from all sources exceeds £19,500 then the additional tax allowances are withdrawn at a rate of £1 for every £2 your income exceeds this threshold. This is known as the age allowance trap.

Many retired people are paying much more in income tax than they really need to. If you lose the additional age allowance it can mean paying over £400 a year more in tax. By rearranging your income in such a way that the taxable portion falls below the threshold of £19,500, you can reduce the tax you pay and increase your net income without having to put your capital at any more risk than it would be in a bank or building society account.

LEBC Group offers a personal tax service and can help you to audit your investments and savings to ensure that you do

not pay tax unnecessarily and that your affairs are arranged in such a way that you can claim all the allowances and relief's available to you. You should not pay more tax than you need to simply because your savings are in the wrong type of account.

Many older clients are also concerned about the level of inheritance tax which will be paid on their estates but do not feel sufficiently well for you to be able to give away large lump sums. Another solution is to make regular gifts out of income to your family which, providing they do not reduce your own standard of living, are exempt from day one. You do not have to live for any length of time in order for these gifts to fall outside of your estate, so long as there is a degree of regularity about the gifts and you can afford to make them without reducing your own standard of living.

It is often possible to utilise the tax savings outlined above by rearranging income producing investments to produce more income for you and thereby enable you to release regular gifts to family members and have the benefit of saving inheritance tax at the same time.

Such a scheme is not complicated or expensive and if at any time in the future your circumstances change, then the regular gifts can be stopped. In the meantime, however you can reduce the tax payable on your estate and enable family members to benefit from gifts during your lifetime.

For a discussion on this and other tax saving ideas please contact your usual LEBC consultant.

**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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## INHERITANCE TAX PLANNING: A 'MODEST' INCREASE

**We've picked up an interesting issue from the Pre-budget Report: The Chancellor anticipates a 'modest' 13.5% increase in inheritance tax yield.**

Buried away on page 209 of December's Pre-Budget Report is the projected figure of £3.3bn for inheritance tax receipts in the tax year 2005/2006. This is one-third more than the actual yield in 2003/2004 and 13.5% more than the projected yield of £2.9bn for 2004/2005. The text describes the increase as 'modest' – which does make you wonder what a significant increase would be.

Of course, once you have sorted out all the zeroes you realise that what the Chancellor is actually anticipating is that an additional £1bn of assets will be subject to inheritance tax in the next tax year.

There are broadly three things you can do about IHT and the first one is what most people do about it which is basically nothing! Nobody, no matter how rich they are, need ever pay IHT during their lifetime. It's always somebody else's problem, a pretty good reason for a spot of inertia. You may not have any particularly close relatives or, if you do, you may not be particularly fond of them or may not object

strongly to them having a bit of tax when the inheritance eventually comes their way, so the 'do nothing' option is always popular.

The second option is a variant on the first but probably involves a lot more fun in that you can simply spend your money until it gets below the nil rate band. Although this sounds like fun, apart from the odd pools or lottery winner whose wealth is derived exclusively from liquid cash, this is not really viable (or desirable) as the vast majority of people tend to want to hang on to their wealth – at least during their lifetimes.

So, if we ignore these two options, what are we left with? The third strategy is to make plans which can avoid or mitigate the IHT liability. These plans can be quite simple in many cases, perhaps involving rewriting your will or putting some assets into a Trust.

Estate planning must be one of your key priorities for 2005. Please get in touch if you would like to review your inheritance tax position. If your estate or combined estates exceed £275,000 (2005/2006 tax year), it is something you cannot ignore – unless you want your family to contribute to Gordon Brown's ever-increasing tax yield from estates.

## 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.

The above is based on LERC 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

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.

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.



## 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.