



Retirement Options - Part 2

In our last issue we covered that when reaching retirement, an individual is normally able to withdraw 25% of their pension fund as a tax-free lump sum. Thereafter there are options and in the last issue we touched on the various different options under annuity purchase for clients to consider.

An alternative option, and one of the most popular with clients who have funds in excess of £100,000 is that of Income Drawdown, also known as Unsecured Pension (USP). Income Drawdown was introduced in the mid 1990's for the purpose of providing individuals with an alternative option to purchasing an annuity at retirement.

One of the key points of Income Drawdown is that your pension fund remains invested beyond retirement and effectively income is withdrawn from the pension fund subject to government maximum limits. Income withdrawals can be at any level up to the maximum permitted and this provides great flexibility for clients, particularly for tax planning, i.e. an individual can maintain their income in the basic rate tax band thus avoiding 40% income tax.

Whilst there are investment risks with Income Drawdown, the concept is essentially quite simple, in that the fund that remains invested is trying to replace the income that is being withdrawn, in order that the fund value can be maintained throughout retirement. This allows individuals to retain personal assets which may be worth hundreds of thousands of pounds.

One of the major advantages of Income Drawdown is the protection it affords for dependents. In the event of an individual dying prior to age 75, where that individual has entered Income Drawdown, then the four options listed below are available to dependents.

- The individual's spouse can take over the full value of the Drawdown fund, i.e. it becomes the spouse's Drawdown fund and income payments will, in most cases, remain broadly similar to the level the Drawdown member was withdrawing.
- If the surviving spouse does not wish to carry on with Income Drawdown then the full value of the fund could be used to purchase a single life annuity. Again this provides income comparable to the former spouse's level.
- The third option for a spouse is to simply cash in the fund subject to a 35% tax levy with the balance being paid into the spouse's bank account. The funds can then be used for whatever purpose the spouse desires.
- The fourth option is that in the event of no spouse/financial dependent, then the fund value less 35% tax can be passed on to the individual's chosen beneficiaries, i.e. it is possible to pass 65% of the pension assets on to your children.

The key points about the death benefit options are that the spouse receives an income broadly comparable to that which the member was enjoying. Normally under other retirement methods, a spouse in the event of the individual's death would only receive 50% of the member's pension until their subsequent death, therefore Income Drawdown provides far greater levels of protection for loved ones.

If you would like further information on this popular retirement option then please contact David Hughes at The Munro Partnership Ltd and we can provide you with an Income Drawdown Question & Answer document either via post or email.

In summary, there are many various retirement options available and any client within a few years of retirement should seek advice to consider all possible options before selecting the best way to proceed.

Disclaimer

This newsletter is for information purposes only and does not represent personal advice. If you would like further information on any of the points raised, please contact ourselves or your own financial adviser so that your own individual circumstances and objectives can be considered. Whilst we believe the information in this newsletter to be correct, we cannot be held liable for any errors or omissions. This newsletter is based on our understanding of current UK tax rules.

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The **MUNRO PARTNERSHIP** Ltd.

PENSION SPECIALISTS AND INDEPENDENT FINANCIAL ADVISERS

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MOVING FORWARD

with The Munro Partnership Limited

Welcome to the summer edition of Moving Forward

In this edition there are topical articles on financial matters presently receiving attention in the media as well as our Market commentary and an interview with Investment Director Robin Dale.

Also on the back page, our Pensions Director, David Hughes, follows up our last issue with the second of our retirement Options articles, covering the option of Income Drawdown.

We hope you enjoy this edition and remember if you have any comments or require further advice we would be delighted to hear from you.

The Burden of IHT

Despite the threshold rising to £300,000 on 6 April 2007, the boost in house prices over recent years means inheritance tax (IHT) is now a concern for many more people than has previously been the case. Even if the value of the house is below the threshold, other assets can easily take your estate over the top. It is therefore sensible to investigate what you can do to alleviate the potential liability. There are a myriad of options available, with different solutions suiting different people.

This, along with changes in legislation as the Government looks to close loopholes, mean it is always worth seeking comprehensive and professional advice.

In our next issue we intend to focus on this subject in greater detail.

Real Estate Investment Trusts

It's taken some time, but they are finally here. Real Estate Investment Trusts (REITs) have existed in other countries for some time and their introduction to the UK is a move to help investors access the benefits of property investment more easily. Investment in the property market can be hampered by the length of time transactions take and the amount of capital required.

Essentially, a REIT is designed to be a more liquid and tax-efficient property investment vehicle, helping individuals to access the developments and benefits of both commercial and private property from as little as £50 per month.

A REIT is basically a company using property investment to produce income. These can be commercial or residential properties and most of the income is distributed to shareholders - with the main advantage being the company is then exempt from corporation tax. REITs are designed to help property companies to raise funds more easily while at the same time offering investors straightforward access to property as an asset class and the potential for robust dividend returns.

In the UK, companies have been able to convert to the REITs structure since January this year. One of the main incentives for them is the ability to avoid double taxation which can be an issue faced by some other property investments (although this situation is now in discussion following the Budget).

REITs qualify for investment via Individual Savings Accounts (ISAs) and Personal Equity Plans (PEPs). If you use your ISA allowance to cover your REIT investments, any growth from these will not be subject to Capital Gains Tax - and higher rate tax payers will not need to pay additional tax on income.

REITs will also be accessible through a Self Invested Personal Pension (SIPP). The diversification benefits will therefore be available across all areas of your investment portfolio.



Interview with Robin Dale

Investment Director at
The Munro Partnership Ltd

Q. What do you feel has been the biggest change in the investment market over recent years?

A. In my view, I feel it has been the introduction and continuing evolution of fund platforms. The Munro Partnership Limited have been using fund platforms for over 7 years now but many other firms of financial advisers and individuals are now starting to see the benefits they offer.

Q. What is a Fund Platform?

A. A fund platform basically carries out the administration of your investments. Say for example you have an ISA with Invesco Perpetual, a PEP with Norwich Union and a unit trust with Legal and General, at present, you will receive separate valuation statements from each company you have these plans with. It is now however possible to put all these holdings onto a fund platform which means the administration of your ISA, PEP and unit trust is carried out by the fund platform but your money can remain invested in the same funds. Therefore, you will receive one statement of all your investments from the fund platform.

Q. What is the advantage for an individual to use a Fund Platform?

A. The major advantage is ease of administration with all your plans effectively held under the one umbrella. Furthermore, by having your investments on a fund platform, you are increasing the flexibility of your portfolio. For example, if you had an ISA held directly with Invesco Perpetual and wished to carry out a fund switch, you would be restricted to switching only into Invesco Perpetual funds. However, if your Invesco Perpetual ISA was administered through a fund platform, you would have access to all the fund providers registered through the platform which can often mean access to over 1000 different funds. It is also far cheaper to move from one fund to another through a platform. Most fund platforms will also allow you to view your portfolio online.

Q. What companies operate Fund Platforms?

A. There are several available but The Munro Partnership tends to favour Cofunds and Fundsnetwork.

Q. What does it cost to move my holdings onto a Fund Platform?

A. This depends. Fund platforms such as Cofunds and FundsNetwork offer a service called re-registration. Most investment providers support re-registration.

Re-registration means that you simply transfer the administration of your PEPs, ISAs and unit trusts from the fund companies they are presently held with over to the fund platform. Your money remains invested in the same funds at all times. Re-registration does not cost anything and the charges associated with the funds you are invested in remain the same.

For holdings that cannot be re-registered, it can sometimes be possible to carry out physical PEP or ISA transfers and, if this is done through The Munro Partnership Limited, preferential terms can be arranged. Although there can sometimes be a small charge for carrying out this type of transaction, I feel that the longer term benefits of platforms heavily outweighs the short term affect of any charges incurred.

Q. Can I hold any other investments on a fund platform?

A. Cofunds and Fundsnetwork now allow individuals to invest in pensions and investment bonds through their platforms.

Q. How do I find out more about platforms?

A. If you require additional information on fund platforms or have holdings you would like to consider moving onto one, please contact me and I can discuss this matter further with you.

Commercial Property Funds

Commercial Property has been a very topical subject for investors over the last few years. There has however been recent press commentary on commercial property funds which has been, in our view, misleading and sometimes incorrect.

Bricks and mortar commercial property funds representing offices, shopping centres, retail warehouses and industrial buildings have been popular with investors in recent years. Investing in a commercial property fund not only provides the potential of achieving capital growth but also offers a good degree of diversification within a portfolio containing equities and bonds.

The negative publicity regarding UK Commercial Property has partly been triggered by switches in the pricing basis of many of the larger UK Property Funds. In some instances, this reporting has lacked balance and has suggested that UK Commercial Property may be facing dramatic falls. Whilst it is highly likely that UK Commercial Property will not produce the exceptional returns achieved over the last 3 years and still has the potential to fall as well as rise in value, it remains an investment of low volatility relative to shares and bonds.

In common with other investment funds, the pricing of property funds is based on a bid/offer spread. When a property fund is in receipt of investor cash inflows, the unit pricing will be based on an offer basis. However, should the fund enter a period of investor redemption, the unit price will reduce to the lower bid basis. When a property manager has reason to believe that, after a period of sustained investor inflows, investor intentions are changing such that a period of investor redemptions is likely, it is prudent to switch the unit pricing basis to ensure the equitable treatment of all investors, both those seeking to remain as unit holders and those seeking to redeem their holdings. In recent weeks, many property fund managers have changed the unit price of their funds to a bid basis.

It is the view of all property fund managers that we have spoken to that the fundamentals of property have not changed. Property has an important role to play in a well diversified portfolio offering a high relative income return, low equity market correlation and low relative volatility of returns. The major point to note however is that the exceptional returns achieved by UK Commercial Property Funds over the last 3 years will moderate to more realistic levels.

UK Market Update

July saw the equity markets finally succumb to the jitters in the credit markets. The FTSE 100 dropped 6.6% over the month, propelled by its biggest one day drop in four years. Mining and other commodity stocks offered the best protection, supported by higher raw material prices and bid speculation. The FTSE 250 after a run of weak performance, held up better than the larger stocks. Smaller companies proved even more resilient, down only 3.39%. The majority of fund managers remained unruffled by the drop, believing that equity valuations still were relatively undemanding. While continued volatility is likely, the consensus is that it is a correction rather than the start of a bare market. It may, however, take some of the wind out of the sails of private equity, who will find investors more risk adverse.

The Bank of England raised interest rates to 5.75% in early July and although they were left unchanged at its second July meeting, most economists forecast a rise to 6% by the end of the year. Inflation is still above the Bank's 2% target at 2.4% year on year, but house price growth and consumer spending appear to be slowing, suggesting inflationary pressures may be moderating. Other economic indicators gave some room for optimism. For example, UK GDP rose 0.8% on the same quarter last year. The recent market set backs plus interest rate rises have helped but some belt tightening for companies and consumers seems inevitable.

Asset Type	Average Annual Return	Average Annual Return	Average Annual Return
	1yr	3yr	5yr
Cash	4.4%	4.2%	3.8%
UK Fixed Interest	0.6%	4.7%	4.7%
UK Commercial Property	10.6%	15.2%	13.5%
UK Equities	17.9%	17.9%	12.6%

Source: Money Management August 2007 - Individual Pension. Figures up to 1/6/2007; past performance is no guarantee of future performance