e-NEWS

JUNE 2006

WELCOME TO OUR THIRD E-NEWSLETTER OF THE YEAR – THIS EDITION PROVIDES AN UPDATE ON RECENT DEVELOPMENTS IN THE FINANCIAL SERVICES MARKET:

WHITE PAPER ON PENSIONS REFORM

On 25 May 2006 the Government published a white paper on its proposals for pension reform. The proposals are in response to the report published by the Pensions Commission, chaired by Adair Turner as well as the feedback received from the National Pension Debate launched in February 2006.

The white paper proposals for simplifying the state pension system have been broadly welcomed but the role of advice still needs to be addressed. The following is a summary of the proposals:

- The introduction of a new system of 'personal accounts' with the following features:

– Employee contributions of 4% of band earnings, 3% employer and 1% tax relief.

– Employer contributions to be phased in over 3 years (maybe longer for small businesses).

– Auto-enrolment for employees into either personal accounts or an employer scheme offering benefits that are at least as generous.

– The government still hasn't decided whether to run this scheme itself or to offer the public a choice of personal accounts from a limited range of suppliers. They will continue to chew this over for the next six months.

- Reforms to state pensions:

– Basic state pension to be linked to average earnings from 2012 at the earliest.

– State Second Pension (S2P) to become flat-rate by 2030.

– Easier to qualify for a full state pension, requiring only 30 years rather than the current 39 for women and 44 for men. This will stop the spread of means-testing potentially blighting the retirement of over 70% of retired people by 2050.

– Gradually raise the State Pension Age from 65 to 66 over a two year period from 2024, and from 66 to 67 between 2034 and 2036 and to 68 between 2044 and 2046.

– Measures to support longer working.

– Abolish defined contribution contracting-out at the same time as the earnings link for the basic state pension is reintroduced.

WITH PROFITS REVIEW

Many investors found that when they came to value their with profits investments over the past couple of years "market value reductions" or MVR's had been imposed. These penalties were levied by the Insurance companies if investors encashed their investments or took large withdrawals. This was a difficult pill to swallow as investors were locked into poor performing funds at a time when the markets were growing rapidly. With good gains in the market since 2003 many of the larger and financially stronger Insurance companies have now reduced or removed these penalties and some are even paying terminal bonuses.

The concept of with profits has been shown in some cases to be somewhat flawed and if you have any with profits investments now would be a good time to review these. Depending on circumstances a move to a more transparent and flexible investment may be appropriate.

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** Source of performance: Financial Express. Net income reinvested. Fund launch date 30.04.03. Past performance is not a guide to future performance. Changes in exchange rates will also affect performance. iimia Accelerated Fund sector is (IMA) Active Managed Sector.*

Click here for link to Accelerated fund 'flyer'

http://centaur/new%20iig%20intranet/new_intranet_pages/iimia/fund%20management/pdfs/flyers/2006-iAF-3yearflyer.pdf

INVESTMENT UPDATE – SPRING 2006

Click here for a link to our fund managers current views on the market

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iimia wealth management

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WOULD YOU LIKE THE CHANCELLOR TO HELP PAY YOUR LIFE INSURANCE COSTS?

At a time when we seem to be paying more tax either directly or indirectly here is one piece of good news. The pensions changes in April 2006 now mean that you can obtain tax relief on life insurance premiums written within a pension plan. So if you have policies that provide death benefits to cover your mortgage for instance or to provide some life insurance for your family it may be worth reviewing this now.

TRUSTS AND INHERITANCE TAX UPDATE

The recent tightening of the tax rules have hit many existing types of trusts and have reduced the number of ways in which you can plan to mitigate Inheritance Tax. One type of trust if written correctly can still be a useful tool however to gift monies (and remove them from your estate for Inheritance Tax) but still enjoy an income for life. Discounted Gift trusts allow just that. You can make a gift and because of the way the trust is written still enjoy an income from that capital sum.

YOUR OWN SIPP ON THE SIDE

Despite the Chancellor's U-turn on residential property as an allowable investment, SIPPs remain 'sexy' after A-day as they still provide unprecedented flexibility, choice and money-spinning potential – it is possible to have just about anything you would have in a personal investment portfolio, but with a tax wrap around it.

Before A-Day, someone in an occupational scheme could not contribute to a SIPP unless they were low earners. However, it is now possible to remain in an occupational scheme, but also contribute to your own SIPP on the side. The new rules mean that someone can contribute 100% of their earnings (up to £215,000 a year from 2006-07) with tax breaks. Prior to A-day only contributions of 15% of salary were allowed.

SIPPs can now also offer a reduction in charges by up to 1.5% pa on old-style pension policies.

REVIEW EXECUTIVE PENSION PLANS (EPP)

Since the introduction of the new pension legislation on 6 April, the majority of insurance companies have relinquished the responsibility of scheme administration of EPPs to trustees.

Under the new legislation, the role of the scheme administrator includes initial registration of the scheme, the submission of quarterly tax returns, annual event reports and pension scheme returns to the revenue. It also includes writing to members who have retired every year outlining how much lifetime allowance has been used up in respect of the scheme.

In the past, EPPs allowed greater contributions and potentially higher benefits. Now there is one set of rules for all pension plans, it could make more sense, depending on circumstances, to move to contract-based schemes to reduce the administration burden and the associated expenses that will apply to EPPs.

THE NEW POST RETIREMENT OPTIONS MAY NOT BE AVAILABLE TO EVERYONE

Not all pension providers will allow the new more flexible pension options to existing policyholders. Someone considering taking advantage of Unsecured or Alternatively Secured Pensions (e.g. to avoid being forced into purchasing an annuity at age 75 and to allow the pension fund to pass to another family member or friend on death) may have to transfer to a contract that does allow these options.

Bournemouth Office
9 Poole Road
Bournemouth
Dorset
BH2 5QR

t : 01202 751566
e : simon.eveleigh@iimia.co.uk

Exeter Office
23 Cathedral Yard
Exeter
Devon
EX1 1HB

t : 01392 475900
e : ian.scott@iimia.co.uk

Northampton Office
Compton House
Abington Street
Northampton
NN1 2LR

t : 01604 541700
e : karen.mccaffrey@iimia.co.uk

Plymouth Office
164 Armada Way
Plymouth
PL1 1LB

t : Martin Glover 01752 660282
e : martin.glover@iimia.co.uk

www.iimia.co.uk

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