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### 1) SPECIFIC OBJECTIVES

Your specific objectives can be summarised as follows:-

- You would like to retire at age 55, but are aware that you may have to work until you are age 60. You current annual expenditure is £57,000 p.a. - you would like to maintain your current standard of living in retirement.
- You would like to provide Gemma with a lump sum (£25,000 in today's terms) on her 18<sup>th</sup> birthday. This gift takes priority over everything else.
- You feel that your assets have been seriously depleted following your divorce and you wish to rebuild these as fast as possible. You would like a review of your existing portfolio of VCTs and Investment Trusts as you are no longer sure that they continue to help you achieve your goals.
- You would like advice on how you can reduce your tax bill now and in the future.

## 2) ASSUMPTIONS USED IN THE REPORT

- Valuation is as at June 2009.
- According to the Government Actuaries Department (GAD), your life expectancy is 79.
- Investment growth is assumed to be 7% - the middle projection rate suggested by the Financial Services Authority (FSA).
- Inflation is assumed to be 3% which is inline with the average inflation rate for the last ten years (average rate 2.1% p.a. over the last 10 year, source: thisismoney.co.uk).
- It has been assumed that you will qualify for the full state pension at your state pension age (66).
- Bank interest is assumed to be 1% which is inline with the current gross interest on your savings account.

## 3) ATTITUDE TO RISK

Your attitude to risk can be classified as Aggressive and you are happy to invest up to 70% of your assets into equities.

#### 4) CURRENT POSITION

##### Income

| Source of Income     | Gross Yield | Present Value   | Gross Income    | Net Income*    |
|----------------------|-------------|-----------------|-----------------|----------------|
| Earned Income        | n/a         | n/a             | £117,000        | £74,998        |
| Deposit Interest     | 1%          | £42,000         | £420            | £252           |
| Scottish Mortgage IT | 1.6%        | £12,198         | £195            | £132           |
| Scottish American IT | 6%          | £9,488          | £569            | £384           |
| BT Shares            | 6.7%        | £968            | £65             | £44            |
| BA Shares            | 5%          | £1,159          | £58             | £39            |
| Baronsmead VCT       | 0.7%        | £36,000         | £252            | £252           |
| <b>Total</b>         |             | <b>£101,813</b> | <b>£118,559</b> | <b>£76,101</b> |

\* Net of higher rate income tax.

Your net income exceeds your expenditure by c£19,000 p.a. Therefore there is scope for additional savings to meet your objectives. Crucially, this assumes that your bonuses continue at the same level.

##### Current Portfolio

Currently 91% of your non property portfolio is invested in equities which exceeds you desired 70%. Over the last 12 months the value of your portfolio is likely to have fallen significantly due to your high exposure to equities.

You have stated that you have an aggressive attitude to risk and may wish to rebalance your equity exposure over the next few months rather than crystallizing current losses.

## Investment Trusts

Investment trusts are closed ended public limited companies whose shares are listed in the stock exchange. The share price is not defined by a formula but set by market forces which can result in a share price standing at a discount, or premium, to NAV and increased volatility compared with unit trusts.

Investment trusts are permitted to gear their portfolio to potentially increase returns. Annual management charges tend to be lower than unit trusts (total expense ratio, Scottish Mortgage Trust: 0.52%, Scottish American: 0.55%).

### Scottish Mortgage IT

This is an actively managed international equity investment trust which aims to maximise total returns from a focused portfolio of equities with above average returns. The equity holdings are typically held for the long term and, as the manager is unconstrained by benchmark weightings, fund performance usually has very little correlation with the benchmark.

The performance of the fund compared to its peers is (source: [www.trustnet.co.uk](http://www.trustnet.co.uk)):

|                                    | 1y    | 3y    | 5y    | 12m-24m | 24m-36m | 36m-48m | 48m-60m |
|------------------------------------|-------|-------|-------|---------|---------|---------|---------|
| SCOTTISH MORTGAGE INVESTMENT TRUST | -39.5 | -9.5  | +46.9 | +10.0   | +36.1   | +29.0   | +25.8   |
| NAV                                | -34.7 | -9.8  | +35.8 | +5.6    | +30.8   | +21.8   | +23.6   |
| Global Growth                      | -21.7 | -11.4 | +36.4 | -8.4    | +23.5   | +22.2   | +26.0   |
| FTSE ALL-WORLD INDEX               | -33.4 | -21.0 | -2.4  | -8.7    | +29.9   | +10.2   | +12.2   |

The fund is currently trading at a 12% discount to Net Asset Value (7% after adjusting debt to market value).

### Scottish American

The objective of this investment trust is to provide capital growth and income through a diversified portfolio with a UK equity bias but also featuring global equities, fixed interest and direct property.

A summary of the fund performance compared to its peers and sector is (source: [www.trustnet.co.uk](http://www.trustnet.co.uk)):

|                                     | 1y    | 3y    | 5y    | 12m-24m | 24m-36m | 36m-48m | 48m-60m |
|-------------------------------------|-------|-------|-------|---------|---------|---------|---------|
| SCOTTISH AMERICAN INVESTMENT CO PLC | -26.7 | -23.2 | +14.3 | -17.0   | +26.1   | +19.5   | +24.6   |
| NAV                                 | -31.8 | -28.3 | +2.2  | -15.5   | +24.5   | +17.6   | +21.2   |
| Global Growth & Income              | -22.1 | -16.0 | +25.1 | -6.7    | +15.5   | +16.5   | +27.9   |
| FTSE ALL SHARE INDEX                | -20.4 | -13.6 | +18.0 | -12.3   | +23.8   | +16.2   | +17.5   |

The fund is currently trading at a 9% discount to Net Asset Value (5% after adjusting debt to market value).

### Comments

Both funds are inline with your aggressive risk profile, however, fund performance has been affected by the global downturn in equity markets over the last year.

The fund rating, from Financial Express and Bestinvest are as follows:

| Investment Trust  | Financial Express Rating (out of 3)* | BestInvest rating (out of 5)** |
|-------------------|--------------------------------------|--------------------------------|
| Scottish Mortgage | 2 crowns                             | 3 stars                        |
| Scottish American | Not rated                            | 2 stars                        |

\* [www.trustnet.co.uk](http://www.trustnet.co.uk)

\*\* [www.bestinvest.co.uk](http://www.bestinvest.co.uk)

A three star rating from Bestinvest suggests that the fund will outperform in the future and represents a 'buy'. A two star rating does not represent a 'buy'. The Scottish Mortgage Investment Trust has achieved outperformance as the market has rallied. You may wish to consider selling the Scottish American Investment Trust and investing in a fund with a capital growth bias (and lower yield) as you do not require any additional income at the current time. This will result in gains being accumulated in the funds (rather than paid out) and the crystallised gains (in excess of the annual exemption £10,100 for 2009/10) will be liable to CGT, at 18%, rather than income tax at

40%. Selling this investment will crystallize a loss of c£5,512 which can be offset against any capital gains made this year or carried forward to future years.

You should aim to utilise your ISA allowance each tax year to move your assets into a tax favoured environment. This can be funded from excess disposable income or from crystallizing gains in your non-ISA portfolio. From a tax perspective, it would be appropriate to hold any higher yielding investments within the ISA wrapper.

### **Equities**

You have existing equities which you are inherited and are not emotionally attached to. We are not stockbrokers and cannot advise on the merits or otherwise of holding individual equities. However, you may wish to consider selling these to invest in more actively managed investments for example Investment Trusts or Unit Trusts. A full analysis of any capital gains tax implications should be completed prior to any restructure.

### **Venture Capital Trusts**

As a VCT shareholder, you must retain your investment for at least five years after investment, if shares are sold within this period, the initial income tax relief will be required to be repaid.

#### Comments

Structurally, VCTs are very similar to investment trusts. VCT shares are illiquid and tend to trade at a wide discount to NAV. VCTs invest in smaller companies shares and are perceived as higher risk.

I would recommend that your VCTs be retained to ensure that your tax relief does not have to be repaid. It would be appropriate to review the investments at the end of the 5 year period.

### **Cash on Deposit**

Current interest rates are at historically low levels, however, it is important that you retain an emergency fund (up to six months income) on deposit in the event of unforeseen circumstances.

#### Comments

For tax efficient reasons you may wish to investigate the possibility of using an offset mortgage facility which offsets your savings against the cost of your loan, thereby reducing the level of interest that you have to pay and potentially cutting down the repayment period for the loan.

Should this be of interest to you, I would recommend that you make an appointment to see a mortgage advisor.

## 5) RECOMMENDATIONS

### Gift to Gemma

There are two ways of funding the gift to Gemma – a lump sum and regular saving option, in summary:

| Year | Gemma's Age | £25,000 in today's terms | Regular Contribution |                     | Lump Sum                                |
|------|-------------|--------------------------|----------------------|---------------------|---|
|      |             |                          | Gemma Birthday pot   | Annual Contribution | Lump sum invested now at 7% growth rate |
| 2009 | 6           | £ 25,000.00              | £ -                  | £ 1,862.22          | £ 15,826.36                             |
| 2010 | 7           | £ 25,750.00              | £ 1,992.57           | £ 1,862.22          | £ 16,934.21                             |
| 2011 | 8           | £ 26,522.50              | £ 4,124.62           | £ 1,862.22          | £ 18,119.60                             |
| 2012 | 9           | £ 27,318.18              | £ 6,405.91           | £ 1,862.22          | £ 19,387.97                             |
| 2013 | 10          | £ 28,137.72              | £ 8,846.90           | £ 1,862.22          | £ 20,745.13                             |
| 2014 | 11          | £ 28,981.85              | £ 11,458.75          | £ 1,862.22          | £ 22,197.29                             |
| 2015 | 12          | £ 29,851.31              | £ 14,253.44          | £ 1,862.22          | £ 23,751.10                             |
| 2016 | 13          | £ 30,746.85              | £ 17,243.75          | £ 1,862.22          | £ 25,413.68                             |
| 2017 | 14          | £ 31,669.25              | £ 20,443.38          | £ 1,862.22          | £ 27,192.64                             |
| 2018 | 15          | £ 32,619.33              | £ 23,866.99          | £ 1,862.22          | £ 29,096.12                             |
| 2019 | 16          | £ 33,597.91              | £ 27,530.25          | £ 1,862.22          | £ 31,132.85                             |
| 2020 | 17          | £ 34,605.85              | £ 31,449.93          | £ 1,862.22          | £ 33,312.15                             |
| 2021 | 18          | £ 35,644.02              | £ 35,644.00          | £ 1,862.22          | £ 35,644.00                             |

A gift of £25,000 in today's terms equates to £35,644 on Gemma's eighteenth birthday.

This could be achieved by investing a lump sum of £15,826 now. The advantage of this is that you place the investment in trust for Gemma and assuming, you survive for 7 years after the gift is made, there will be no inheritance tax payable. In addition, the gift to Gemma is in place, irrespective if anything was to happen to you over the next 11 years.

The alternative option is to invest £1,862 p.a. (£155p.m.). The advantage of this is that you would benefit from pound cost averaging over time, the level of monthly investment is affordable out of your net income and you would not be required to find a lump sum to invest now. The investment could be held in designated account for Gemma.

I would recommend that you establish a designated regular investment plan and commence monthly contributions of £155.

## Retirement Funding

Based on your current position, I summarise your projected retirement position:-

| Retirement Age  | 55              | 60              |
|---|-----------------|-----------------|
| Years to retirement   | 8               | 13              |
| Annuity rate  | 3.10%           | 3.64%           |
| Current pension fund  | £350,000        |                 |
| Pension contribution  | £2,000          |                 |
| Desired retirement income   | £19,440         |                 |
| Retirement fund   | £ 855,404       | £ 1,342,140     |
| Pension   | £ 26,518        | £ 41,666        |
| Real pension fund   | £ 675,264       | £ 913,932       |
| <b>Real annual pension value</b>                                      | <b>£ 20,933</b> | <b>£ 28,332</b> |
| Desired pension fund shortfall  | -£ 61,017       | -£ 421,227      |
| Fund top up required  | -£ 35,517       | -£ 174,794      |
| Additional monthly contribution required                              | -£ 480          | -£ 1,689        |
|   |                 |                 |
| Projected value of investments  | £ 102,770       | £ 144,140       |
|   |                 |                 |
| <u>Notes</u>  |                 |                 |
| Annuity rate based on single life, 10 year guarantee, RPI escalation. |                 |                 |

Assuming your circumstances remain the same and you continue funding your pensions at the current level, your pension fund will provide your desired income at a retirement age of 55 or 60. The desired income level, £19,440, is based on your current expenditure level (£57,000 p.a.) assuming that you cease:

- Maintenance payments to Gemma (£14,400 p.a.),
- Mortgage payments (£11,160 p.a.),
- Pension contributions (£12,000 p.a.).

At retirement, your mortgage could be repaid using the investments (plus some of your cash on deposit to cover the shortfall at age 55). At age 55, you would also be required to fund Gemma's maintenance payments for a further 4 years – again this should be funded using accumulated cash on deposit.

## Reducing Tax

### Pensions

Contributing additional income to pensions is a tax efficient way of increasing your retirement provision and you also receive tax relief, at your highest marginal rate, on contributions.

You are currently contributing £1,000 gross per month which is matched by your employer. New tax legislation is proposed which will have an impact on high earners and this is an area which we should review in the future once we have had chance to fully appraise the new legislation.

### Offset Mortgage

Establishing an offset facility allows you to offset savings against outstanding mortgage, you therefore pay less in loan repayments and avoid paying tax, (at 40%) on savings income that you would otherwise have earned.

### **Venture Capital Trusts/Enterprise Investment Scheme (EIS)**

You are familiar with VCT and the available tax relief on investment.

An alternative investment you may wish to look at is an EIS which provides 20% tax relief providing the investment is held for a period of three years from investment. EIS are viewed as high risk investments I would suggest that we discuss this further if you are interested.

## **6) OTHER AREAS TO CONSIDER**

### **Protecting Income in the event of accident or disability**

The plan is based on the assumption that you continue to be gainfully employed until age 55 (or 60). There would be a significant impact on should you be unable to work due to ill health or disability.

Your employer may provide Income Protection Insurance or a sickness policy where, in the event of long term illness or disability, they may continue to pay your 'basic' salary for a set period (usually six or 12 months). I would suggest contacting your HR department to ratify this. After which you may be entitled to receive state aid which is currently £89.80 per week.

In the event that no Income Protection is provided by your company, I would suggest that you consider a Personal Income Protection policy. As an indication, the cost of a policy providing cover at a level of £57,000 to age 60 with a 6 month deferred period would be £97 per month.

## **Inheritance Tax**

The value of your estate is:-

| <b>Asset*</b>           | <b>Approximate Value (June 2009)</b> |
|-------------------------|--------------------------------------|
| Bank Account            | £42,000                              |
| Investments             | £59,813                              |
| Property                | £365,000                             |
| Total Assets            | £466,813                             |
| Less liabilities        | £123,000                             |
| Estate liable to IHT    | £343,813                             |
| Nil rate band (2009/10) | £325,000                             |
| IHT                     | £18,813 @ 40% = £7,525               |

\* Excludes Personal Pension Plans which will fall outside of your estate for inheritance tax purposes in the event of death before retirement.

Your current IHT liability is c£7,500. I would suggest keeping this under review as it is likely that your estate value will increase at a faster rate than increases in the nil rate band.

## **Will**

Upon marriage, any Will made prior to that date would have become void. However, upon divorce, any Will made whilst married would still be valid.

I would therefore recommend that you make an appointment to see a solicitor to revise your existing Will, or write a new Will, to ensure that your estate is distributed in accordance with your wishes.

It would also be advisable to check the nominated beneficiary on your Personal Pension Plan, to ensure that this is in line with your wishes.

### **Gemma**

You may feel that, in the event of your death, Gemma would be adequately provided for from your residual estate. However, you may wish to effect a policy which will provide for Gemma's maintenance and love of horseriding in the event of your premature death.

In the event of premature death, a Family Income Benefit policy would provide a regular income to Gemma until the end of the term. The monthly cost of providing an income of £18,000 per annum until Gemma is 18 (12 years) would be £16. Both the premium and the benefit will increase in line with inflation to protect the value of the benefits against inflation.

This premium is affordable out of your net income and provides security for Gemma in the event of your death. Importantly, the plan would pay out immediately and not have to wait for probate.

## **7) MONITORING/REVIEW**

I would recommend a meeting at least on an annual basis to review:

- The assumptions used in the report.
- Your annual ISA allowance.
- Review your investment objectives and the overall investment performance.
- Review your income, expenditure and risk profile.
- Any changes in legislation.

I would recommend that you:

- 1) Contact your HR department to confirm any sickness/ill health arrangements.
- 2) Contact your solicitor as soon as possible to review/establish a Will.
- 3) Contact a mortgage advisor if you are interested in the offset facility.

4) Review Nomination of beneficiary for pensions (and company death in service, if appropriate).

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