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The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of the current legislation and market conditions, all of which are subject to change. If specific, individual advice is required, we urge you to contact your IFA.

Geoff Pollock, Partner and Senior IFA

DEDICATED MORTGAGE AND GENERAL INSURANCE DESK

Following her transition from Mortgage Researcher to Mortgage Adviser, RT Financial Planners LLP is pleased to announce that Mandy Clements-Hunt now heads our dedicated Mortgage Desk, sourcing the best available mortgage to suit your personal circumstances along with the best in associated protection products. You can call Mandy direct on: 01242 604066.

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

You can choose how we are paid for mortgages, pay a fee, usually 0.3% of the loan amount, or we can accept commission from the lender.

Correction:

In the last Newsletter we said ISAs were being simplified by dissolving the distinction between Maxi and Mini ISAs and allowing the transfer of Mini Cash ISAs to Stocks and Shares ISAs. We indicated this would happen in April 2007. It is, in fact, scheduled for April 2008. Also from 2008, the ISA limit will increase from £7000 to £7200, which includes a maximum cash element of £3600 – an increase of £600.

POWER OF ATTORNEY

When discussing financial matters with our clients, we always ask if they have written their Will and we also remind them of the need to keep it up to date.

If you are writing, or updating, your Will, it is a good idea to arrange an Enduring Power of Attorney. This is a simple form that appoints someone to look after your financial affairs if you are unable to do so yourself. The appointed attorney (a member of the family, usually, or if not, perhaps a solicitor) steps in when people are too ill, or mentally incapable, to make important financial decisions, but an Enduring Power of Attorney (EPA) can be used at any time, for example if you are perfectly healthy, but out of the country on an extended holiday.

Rules governing Powers of Attorney will change later this year. It will become much more expensive - and much more complicated - when new rules come in (probably in October). It is therefore important to put a Power of Attorney in place now, if you have not already done so. It is also important to understand exactly what it is that is being put in place – and how this would change if you delayed until later in the year.

If you do not have an EPA, we strongly advise you to seek advice on this important matter and we are happy to recommend a suitable solicitor to whom you can talk.

Pictured below are some of the team who have recently taken industry examinations; something the Partnership both encourages and rewards.

Left and right in the group photograph are Kathy Atkins and Mel Stones, who have recently passed CF1, the first module of the Chartered Institute of Insurers' financial services exam structure. Between them is Mandy Clements-Hunt who works in our Winchcombe office and has passed the examinations required to move from Mortgage Researcher to Mortgage Adviser. Hazel Hill, pictured separately, has recently undergone advanced Sage training to aid her in her work as our Accounts Manager. Our congratulations go to them and to all our staff who have taken and passed exams.



What The Budget Didn't Say!

The general press has been full of Budget news since the speech in late March. But what didn't it headline? This time last year there was a big shake up in Trust law and there was great concern about the relevance of some inheritance tax planning.

This Budget has not thrown up such concerns. Indeed the inheritance nil rate band has increased to £300,000 but that still means that on an estate of £1 million (including of course, the value of one's house) there is a potential IHT bill of £280,000. Estate planning is as relevant today as ever and there are *still* many ways to address the matter. If you are concerned about your IHT liability and seek ways to reduce it, as ever, RTFP is here to provide independent, unbiased advice for you.

INVESTMENT BONDS and 'CRAG'

DYLAN JENKINS

Investment Bonds are a popular vehicle for people looking to make lump sum investments.

Unit Trusts or OEICs (Open-Ended Investment Companies), PEPs and ISAs are some other forms of lump-sum investment. However, there is one major area where bonds have a distinct advantage over other forms of savings and this, perhaps surprisingly, is residential care.

CHARGING FOR RESIDENTIAL ACCOMMODATION GUIDELINES (CRAG)

These guidelines are issued by the Department of Health and apply to Local Authorities in England and Wales. The Local Authority assesses any individual requiring residential care. (In the case of a married couple, the spouse's income or capital must be ignored unless they, too, require residential care from the Local Authority. Where this is the case they must be both assessed separately, ie they each have individual limits applied.)

In England and Wales, Local Authorities are only expected to fund residential care where an individual's capital is less than £21,000. Where capital is in excess of £21,000 the individual is expected to meet the full cost of residential care.

WHAT IS CRAG'S DEFINITION OF CAPITAL?

Capital is specifically defined in CRAG as something that is not held for a limited period or intended to form part of a series of payments. In practice, this means most assets including cash, savings, overseas property, business assets, land and buildings, property under trust and other property. Personal possessions would not usually be regarded as capital unless they were acquired as a result of very large expenditure. Jointly-held capital, such as savings in a joint bank account, would typically be treated as being owned equally. In the case of Trusts, if an individual has absolute entitlement to the capital or income, they will be treated as possessing the actual capital. Where Trustees have discretion to make payments of capital or income, for example a Discretionary Trust, account can only be made of payments actually made and not of the capital.

YOUR HOME

For the first 12 weeks of any stay in a residential home your principle private property will not be treated as an asset, being termed a 'capital disregard'. After 12 weeks, however, the Local Authority can include its value in the financial assessment. This means that in many – but not all - cases the family home will have to be sold to fund residential fees or, alternatively, if there is a surviving spouse, a charge may be placed on the property and a debt will be incurred which has to be repaid, either when the second spouse dies or when the property is sold. Other rules and restrictions apply with regard to capital disregard and it is essential you discuss your circumstances fully with your IFA.

Without having to place money into Trust there is an alternative – the **Investment Bond**.

A type of asset or capital that is excluded under the CRAG rules includes the surrender value of a life policy. This can cause confusion, because although a Capital Investment Bond is clearly used as an investment vehicle it is, technically, a life policy. The CRAG guidance is clear on this point – the capital should be disregarded but any withdrawals of capital will be treated as income. So, if someone invested £100,000 in a bond but took no income, then the £100,000 would be disregarded, unless the Local Authority could prove the arrangement was deliberate asset deprivation (for example, if the bond had been set up, say, six months before residential fees were incurred).

If someone's priority is to protect capital and ensure that the value of their estate is not severely depleted by the cost of long-term care in the future, then investing into a bond could be highly advantageous. Of course, there is no guarantee that current CRAG rules will remain unchanged in the future. Currently, however, a lump-sum investment in a bond is not only a way of providing an excellent investment vehicle, but also can act as potential protection for capital in the future.

To recap: if someone looking at the residential care-home scenario described earlier had £100,000 in an investment bond that had been set up for, say, around one year, from which they were taking no income and in addition their other savings amounted to less than £21,000, then this capital would be entirely disregarded and excluded from the financial assessment. The Local Authority would then have to pay the residential fees.

Therefore, when considering which investment vehicle is the best for you, whilst the underlying tax efficiency of the fund is an important factor it may not, in this instance, be the most relevant. In many cases, insurance companies, through RT Financial Planners LLP, will offer preferential terms and high allocation rates, meaning that the underlying investment is not only very attractive in its own right, but may also offer protection of the capital disregard provided by the current CRAG regulations.

For a full assessment of your own circumstances and advice in this complicated area, please contact your IFA at RT Financial Planners LLP.

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