

## The value of Unused Reliefs

Retirement annuity contributions remain a highly tax efficient method of creating retirement income. Consider a 55 year old on the verge of retirement with unused relief of £100,000:

<i>Net cost of investment (1)</i>	<i>£35,000</i>
<i>Pension fund to provide income (2)</i>	<i>£75,000</i>
<i>Potential income (3)</i>	<i>£5,400</i>
<i>Yield on net investment (4)</i>	<i>15.4%</i>

(1) after tax relief assumed at 40% (£40,000) and cash commutation of 25% (£25,000). (2) Amount invested (£100,000) less cash commutation (£25,000). (3) based on maximum drawdown rate at 9.10.00 for a male 55. (4) as a percentage of net cost of investment.

Clients who do not take their benefits immediately should benefit from growth in a tax privileged environment and protection of the capital invested in the event of death.

The carry forward provisions for Personal Pension (not RAP) contributions will cease from April 2001 so

it is important that contributions are paid promptly. If you combine carry forward and carry back you have until 31 January 2002 to make the contribution and election. If you are using carry forward only, the contribution must be paid by 5 April 2001.

### 'Use it or lose it' - the drawdown versus annuity debate

With the continuing low rates available from annuity providers, clients may wish to consider the withdrawal of an income from their pension fund without the commitment to annuity purchase. There is now a case, for those with substantial retirement funds, for withdrawing as high an income as is permitted by the Government Actuary's Department in order to fund a tax advantageous 'maximum investment plan'. This strategy has the effect of increasing non pension assets, which can be placed in trust for beneficiaries, and reducing the pension fund which will be subject to compulsory annuity purchase at age 75.

### Inequitable orphan proposals?

On the face of it, the Axa proposal to pay £525m to acquire £1.75bn of orphan assets seems rather rich to say the least. If it were possible, the winding up of the fund would seem to be a more satisfactory solution for policyholders who are entitled to 90% of the orphan assets with shareholders only 10%. The Consumers Association is seeking to mount a legal challenge at the Court hearing on November 20, when Axa's proposals go forward for approval. Of greater interest to our clients is any precedent which might be set allowing other offices with large orphan estates such as the Pru and L&G to obtain access to their own orphan assets.

### Stakeholder Pensions

Employers are required to have a stakeholder pension in place for all employees by October 2001 unless they are exempted by reason of having fewer than five employees, an occupational scheme in place or a group personal pension scheme to which they are contributing at least 3% of salary.

### Equitable Life

If you have a guaranteed annuity rate in your policy, you should ask us for advice. It is still possible to withdraw funds from the Equitable With Profits fund without the imposition of a 20% penalty on the terminal bonus element. Where funds are used to take benefits, which includes transfer to an Income Drawdown policy, no penalty is applied. Please speak to your Saunderson House consultant for specific advice.

### Guaranteed Income Bonds

We are, where appropriate, recommending the income bond from AIG Life which is yielding a gross equivalent of 7.79% (4.67% net for a higher rate taxpayer) for a two year bond of over £40,000.



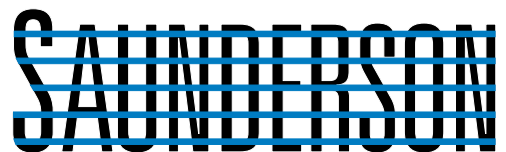
### Venture Capital Trusts

Several new trusts are being launched from established firms including Friends Provident AIM II, Downing Classic 3 and Matrix Trivest. VCTs are high risk but may be appropriate diversification up to 5% of net worth. Tax relief at 20% is given for investments up to £100,000 pa and rollover of capital gains is allowed for new issues. Dividends from and capital gains within VCTs are tax free. For an investor enjoying full reliefs, a net dividend yield of 4% on cost will produce a gross equivalent yield of 16.7%. Investments must be held for three years in order to retain the income tax relief. Please complete and return the reply paid card below for advice.

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This note is for general guidance only and represents our current understanding of law and Inland Revenue practice as at October 2000. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments and any income from them can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor. For income drawdown policies, it should be noted that: high income withdrawals may not be sustainable during the deferral period; taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken - this could result in a lower income when the annuity is eventually purchased; annuity rates may be at a worse level when annuity purchase takes place and a certain investment return is required simply to "keep pace" with an annuity because a pension withdrawal fund does not receive a benefit from the early death of other pensioners, 'mortality drag', as does an annuity.



## Reply Slip

Name:.....

Firm:.....Email address:.....

Telephone (Work):.....Telephone (Home):.....

Please contact me to provide advice on:

- |  |  |
|--|--|
| <input type="checkbox"/> Unused relief                 | <input type="checkbox"/> Other (please specify)..... |
| <input type="checkbox"/> The 'use it or lose it' issue | I am interested in investing in a VCT                |
| <input type="checkbox"/> Equitable policies            | the sum of £.....                                    |

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