



THREE COUNTIES

Financial Management Services Limited

PROFESSIONAL BRIEFING No.13 June 2006

Our Trust Review Service

Whether you are advising on the creation of a new trust or working with a long established trust we have an investment review service designed to meet your needs – please refer to our Trust Review Service leaflet which covers:

- The new trust: the trust overview
- The established trust: the trust review service report
- New and established trusts: the recommendations report
- Appointment as Investment Manager to the trust

Impact of A-Day on Trust Based Schemes

Below we have set out those changes that will impact on trust based schemes, some of them affecting the scheme administrator. The most likely schemes that your clients may have are Executive Pension Plans held for company directors.

- Trustee knowledge and understanding requirement
- Member Nominated Trustee changes
- Requirement to consult with employees
- Preservation rights change
- Internal Dispute Resolution changes
- Contribution control changes
- Employees working overseas
- AVC requirement removed from Occupational Plans

If your clients are expressing concern at their increased responsibility as trustees we can discuss these with you in more detail. In some cases it may be worth considering transferring the benefits to a SIPP which would free them of the new requirements.

Our service to the professional trustee and the trust department

For many firms the role of professional trustee has been a cornerstone of the trust department and its services. Offering to assist in the day to day management and running of the trust and its investments can bring peace of mind to the settlor, beneficiaries and other trustees. However professional trustees have a higher level Duty of Care under the Trustee Act with individuals being expected to demonstrate the skills of an expert in operating the trust and managing its assets.

It is key, therefore, that professional trustees have the necessary levels of support in reviewing the investment policy statement and the trust's compliance with the statement. This includes assessing which benchmark, if any, the trust assets should be measured against and what level of investment risk the trustees should be taking with the medium to long term investment of the trust's assets.

How we are remunerated

At the start of any advice process we will discuss with our client how the fee will be calculated, what our client can expect to receive for the fee they are paying and the different methods in which this fee can be paid.

For a number of our clients using commission which we can elect to receive from product providers for establishing investment policies to offset against the fee due to be paid makes sense from a cashflow and taxation point of view. Other clients prefer to pay us directly and wherever possible we will enhance their policies and investments to ensure they are not paying us twice.

Duty of Care

The aim of the new statutory Duty of Care is to bring certainty and consistency to the standard of competence and behaviour expected of trustees. This standard takes into account the experience and knowledge of the trustees and whether they are acting in a professional capacity. It applies when exercising the general power of investment, reviewing investments, appointing someone to give investment advice and selecting agents to carry out other key responsibilities on behalf of the trust.

It is important therefore that the trustees complete a detailed assessment of any investment specialist or agent they are using and feel confident in the professional advice that they will receive. Trustees should ensure all third parties should be suitably qualified and experienced to give the advice required by the trust.

Pension Simplification and Life Insurance

Under pre 2006 legislation, tax relief was only available on life premiums through Pension Term Assurance (PTA). As only 10% of the total pensionable allowance could be used to purchase life insurance, it restricted the amount of cover available under this type of plan.

PTA contributions could also only be made if a customer was actually contributing to a pension plan.

Now all this has changed...

Premiums receiving tax relief now count towards the overall pension contribution limits. Clients have the opportunity to receive tax relief on their full premium as long as their annual contributions to their pension plans don't exceed the higher of £3,600 and 100% of relevant UK earnings which are chargeable to income tax.

As a stand alone product, the life insurance premiums are also no longer attached to actual pension contributions and a person doesn't have to be in employment to take up a plan. Premiums are collected net of basic rate tax, with higher rate tax payers being able to claim the additional relief through their tax return, bringing total tax relief up to a maximum of 40%.

Because new life cover policies are automatically written under master trust, any nominated beneficiaries will not have to pay any inheritance tax on the lump sum payable on death.

Law Society Survey-April 2006

These are some of the results of a recent survey of members of the Law Society.

1. Approximately how many clients of your practice have established lifetime trusts?
< 10 34%, 11-50 29%, 51-100 10%, >101 22%,
Unknown 5%.
2. Approximately how many clients of your practice have established interest in possession and/or accumulation and maintenance trusts in wills?
< 1,000 62%, 1,001-5,000 32%, 5,001-10,000 2%,
>10,001 3%.
3. What was the primary purpose of your clients' accumulation and maintenance trusts?
Divorce 43%, Funding 33%, Children 11%, Tax 6%, Other 7%.
4. At what age do your clients prefer beneficiaries to inherit absolutely?
18 3%, 21 37%, 25 55%, **Over 25 5%.**
5. What proportion of your clients do you estimate will have to rewrite their wills?
< 10% 4%, 10-25% 14%, 25-50% 18%,
50-75% 36%, >75% 28%.

For further information please contact:-

Peter West (Managing Director) pww@three-counties.co.uk

Steve Cann (Director) sec@three-counties.co.uk

Simon Walker (Director) sgw@three-counties.co.uk

John Baxter (Director) John.Baxter@three-counties.co.uk

Peter Braisby (Client Services Manager) pab@three-counties.co.uk

Les Cain (Office Manager) Leslie.Cain@three-counties.co.uk

You should be aware that investment in securities involves risk. The value can fall as well as rise and you may not get back the full amount invested, particularly in the earlier years.

Taxation: All statements relating to taxation are based upon our understanding of the law and Inland Revenue practice in force at the date of this report. There can be no guarantee that the tax position or proposed tax position at the time of investment will endure indefinitely.

CALE CROSS HOUSE 156 PILGRIM STREET NEWCASTLE UPON TYNE NE1 6SU

Telephone (0191) 230 3034 Facsimile (0191) 230 3035 www.three-counties.co.uk

Authorised and regulated by the Financial Services Authority (FSA) although the FSA may not regulate all products/services recommended.

Tel: 0191 230 3034