



# THREE COUNTIES

*Financial Management Services Limited*

PROFESSIONAL BRIEFING No.16 November 2006

## Poor Health Can Make it Difficult to Keep Finances Afloat

Battling a serious illness could put a person out of action making it difficult to meet financial commitments. If the worst does happen, critical illness insurance could cover the cost of the mortgage or school fees or help pay for medical treatment.

Critical illness provides a tax-free one-off payment if one is diagnosed with a serious illness. All critical illness policies must cover cancer, heart attacks and strokes but, beyond that, the list can vary greatly. For example, BUPA covers almost 40 conditions, while Egg covers just 8.

Data from Norwich Union shows that in 2005 payouts averaged £73,000 and that breast cancer alone accounted for almost a fifth of all critical illness claims.

Critical illness insurance can be bought on its own, but 95pc of all critical illness insurance includes life cover. Premium rates obviously vary depending on age, sex, lifestyle and family medical history.

If requested, we can provide a personal illustration for you or one of your clients having first researched the market.

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### Corporate Review Service

We are presently conducting Corporate Reviews for employers who have employee benefits for their staff. This follows the changes introduced by the Finance Act 2005 and is intended to assess existing employee benefits highlighting any implications following the recent legislation and new reporting requirements.

An Analysis and Recommendations Report is produced following the Review providing clear recommendations on just what to do next even if this is 'stay as you are'.

We believe this type of review is essential to ensure that employers are following all the guidelines and employees are receiving appropriate benefits. The cost of the review and report is £450 plus VAT.

### Pension Post A Day Seminar

This seminar is to be held on Tuesday 21st November 2006 at the Hilton Hotel Gateshead. The starting time is 10.00am and the seminar will cover:

- A review of changes brought about by the Pensions Act 2005
- An assessment of the affect of pension simplification on clients' existing pension savings
- How the wider investment opportunities can be used to help clients gain the most from their pension funds
- An explanation of our Pension Evaluation Service

The guest speaker is Vince Smith - Hughes of Winterthur Life

### Tax and Trust Seminar

This seminar will be held on Tuesday 21st November 2006 at the Hilton Hotel Gateshead. The starting time is 2.30pm and the seminar will look at:

- The obligations of trustees
- Recent taxation changes to trusts
- Available trusts and their IHT implications
- The Trust Review Service

The guest speaker is Elaine Cruickshank of Scottish Equitable

# Pension Transfers

Taking tax-free cash and transferring to income drawdown

Recently we have received enquiries regarding the correct procedure for vesting benefits, taking tax-free cash sum and transferring into a drawdown product with a different provider.

**HMRC Pensions Tax Simplification Newsletter No. 18 confirmed that:**

“A pension commencement lump sum can only be paid where a member is becoming entitled to a 'relevant pension' **under the scheme**. A relevant pension includes income withdrawal, a lifetime annuity or a scheme pension.

If the member is not entitled to take income withdrawal from the unsecured pension fund under the scheme, then funds have not been made available for the payment of a relevant pension under that scheme and so any lump sum paid will not be a pension commencement lump sum, it will be an unauthorised payment.”

This means that, if a member takes tax-free cash from a scheme, **that scheme** must also designate an appropriate amount of the fund, typically 75% or three times the tax-free cash figure, towards the provision of a secured pension or an unsecured pension such as an income drawdown arrangement.

If this procedure is not followed correctly, the tax-free cash become an unauthorised payment, because the remaining fund is deemed to have been unvested at the point of transfer. It will become liable to tax at up to 55% in the hands of the member.

Of course this problem could be avoided if the funds are transferred **before vesting** (and before taking any tax-free cash) to a provider that can offer income drawdown. However, if the member has a protected tax-free cash entitlement of greater than 25% of the fund, this may be lost on transfer, unless a 'block transfer' scenario applies. For single member schemes, it would mean winding up the scheme and securing the benefits via a Section 32 buyout that offers a drawdown feature.

**Please note:** This issue does not affect the option to take tax-free cash and purchase an annuity with an alternative provider via the open market option. This is because an open market option payment is not treated as a transfer of unvested funds.

# Buy-to-let Properties

With mortgage arrears on the increase, and many more consumers struggling with debt, landlords are being warned rental voids are now likely and with this in mind some pointers to help landlords avoid problems may be helpful.

Many landlords find that at some point they have been faced with a defaulting tenant. It is important for landlords to be on their guard against this in order to avoid financial ruin themselves.

If a payment crisis does occur often damage limitation can be the best course of action. This may involve the tenant paying less in the short term until they can pay back the arrears. Landlords must act immediately if a tenant does miss a payment as all too often this will be followed by more non payments, then no contact and ultimately a costly action to retrieve the missing funds.

Always ask for several references. All too often a potential landlord will approach the tenants' current landlord for a reference, who could see giving a good reference as an effective and inexpensive method of ridding themselves of a problem tenant. Keeping a close eye on everything to do with the property, organised finances and good paperwork will mean that it is less likely for rental arrears to go unnoticed.

Also take note that research shows rental voids are more likely to occur on more expensive properties. Therefore by purchasing an affordable midrange buy-to-let property defaults can be avoided as tenants are more likely to pay an affordable rent.

## For further information please contact:-

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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.

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