Extracts from Financial Plan for Phil & Sue Denham

(prepared in September-2013 in tax year ending 05-April-2014)

Objectives

The extracts from your financial plan will cover advice on:

1. Your potential inheritance tax liability and how to mitigate this
2. Steps you can take to improve the tax efficiency of your arrangements
3. How to meet your objective for income in retirement
4. Provision for future care costs for Susie
5. Other potential issues and a brief indication of what you might do about them.

Assumptions

This report has been prepared with the following assumptions.

PA	
2.50%	Price Inflation. HMGovernment's CPI target is 2%. Currently it is 2.7%. The Bank of England May-2013 Inflation Report projects inflation at 2% to 2016.
4.00%	House Price Inflation. In line with wage inflation assuming an approximate historic relationship of inflation+1.5%.
0.50%	Interest rate for cash. Current Bank of England Base Rate.
3.00%	Return on Index-Linked assets (inflation+0.5%).
2.00%	Return on Gilts (HMGovernment Securities) per redemption yields reported by Debt Management Office (DMO).
3.00%	Return on Corporate Bonds assume approximate historic 1.0% credit spread over gilts.
6.00%	Return on Equities assume approximate historic equity risk premium of 4.0%, the difference between expected rate of return from equities and the risk-free rate from gilts.
4.00%	Return on Commercial Property. The 1 year total return to 31-May-2013 per the CBRE UK Annual Property Index was 3.9%.
2.75%	Annuity Interest Rate in line with current redemption yields on long-dated gilts per DMO.

All returns assumed to be total returns combining income and capital appreciation.

Average life expectancy is 81 for Phil and 84 for Sue.

Pension annuities calculated using PA90 tables downrated 10 years.

State Pension Age (SPA) Assumptions

Name	**Date of Birth**	**SPA**	**Date**
Phil	01-09-1952	65yrs	01-09-2017
Sue	01-09-1956	66yrs	01-09-2022

1. Estate Planning

I have estimated the overall value of your estate for inheritance tax (IHT) purposes as £2,859,500, as summarised below. I have included in this the death before retirement lump sum benefits payable by your various pension schemes.

Assets	Phil Denham	Sue Denham	Joint	Total
	£	£	£	£
Readily Realisable Assets				
Cash Deposits				
Bank accounts	6,000	2,500	44,000	52,500
Building Society accounts	65,000	370,000	30,000	465,000
Cash ISAs				0
NS&I Premium Bonds	30,000	18,000		48,000
Investments				
Equity ISAs	85,000	60,000		145,000
Quoted shares / investment trusts	92,000	35,000		127,000
Unit trusts / OEICs	40,000	20,000		60,000
Assets NOT Readily Realisable				
Property				
Principle Private Residence (joint tenants)			700,000	700,000
French apartment			250,000	250,000
Pension Funds				
Pension Funds PPs	650,000	75,000		725,000
Final salary lump sum DiS	240,000			240,000
Other Assets				
Contents / Personal Effects UK			60,000	60,000
Contents / Personal Effects France			20,000	20,000
Car(s)	15,000	12,000		27,000
Total Assets	1,223,000	592,500	1,104,000	2,919,500
Liabilities				
Offset mortgage re UK			60,000	60,000
TOTAL NET ASSETS	**1,223,000**	**592,500**	**1,044,000**	**2,859,500**

1.1 Nil Rate Bands

Turning now to your IHT nil rate bands, I have assumed that no chargeable lifetime transfers have taken place in the last 7 years, having in mind the discretionary settlement made after Susie was born 9 years ago.

I note the additional gifts you have made to the discretionary trust since do not exceed £5,000 per annum and hence fall within your combined annual £3,000 gift allowances. I have therefore assumed there is an unused £500 per annum each from your annual gift allowances.

I note the £30,000 you jointly provided to Andrew and Gemma 4 years ago. Allowing for your unused gift allowances I have treated it as two potentially exempt transfers (PETs) of £14,000 each.

In the unfortunate event that you had both passed away in 2013, I have calculated the nil rate bands available as £312,000 each (i.e. £325,000 - £14,000 PET + [2 x £500 annual gift allowance]).

Please note that Sue would also have had an entitlement to the unused nil rate band from the estate of her first husband of £325,000, but this is lost as your Wills leave everything to the survivor. Action is required here to make use of this third nil rate band also.

1.2 IHT Payable As Things Currently Stand

I have calculated a potential overall IHT bill in 2013 of £894,200 (i.e. 40% x [2,859,500 – 624,000]).

I have repeated the calculation assuming you had just retired. Referring to the above table, this would remove the pension lump sums and the mortgage from the calculation. The PETs associated with the £30,000 gift to Andrew would fall out of the picture as by retirement, over 7 years would have past. On this basis and using current figures, the nil rate bands plus gift allowances available would be £326,000 each (i.e. £325,000 + [2 x £500 annual gift allowance]) and there would be a potential overall IHT bill of £521,000.

1.3 Mitigation

I recommend the following steps to mitigate the potential inheritance tax liability:

a) Sue to seek legal advice on a Deed of Variation for her late mother's estate whereby the £350,000 she has inherited is instead put into two discretionary trusts.

b) The first trust from the Deed of Variation to be for £100,000 with Phil and Sue as trustees and Phil, Sue, the children and grandchildren as potential beneficiaries. The trust also to have an expression of wishes along the lines of providing for Phil & Sue if a top-up in income or capital is required during their lifetime, thereafter to be divided equally between Andrew and Mark and their issue.

c) The second trust from the Deed of Variation for £250,000 to be with Phil, Sue and Andrew as trustees and Andrew, Gemma, Susie and any future issue as potential beneficiaries. The trust also to have an expression of wishes along the lines of providing for a top-up in income or capital for Andrew or Gemma, and providing income only (no capital) for future costs for Susie. I have considered the potential use of this as a vulnerable person trust with the associated tax advantages (improved CGT allowance and income tax personal allowance) but do not recommend this as flexibility on beneficiaries is preferable in case Susie's life expectancy is less than expected.

d) Phil and Sue to assign 100% of the ownership of their French apartment valued at £250,000 to Mark which will be treated as a PET and will allow for equal treatment with reference to the discretionary settlement for Andrew and his family. If the apartment is pregnant with gains this gift may attract a CGT liability and we would need to consider a strategy to mitigate this (i.e. phasing the transfer over multiple tax years to use your CGT allowances).

e) Phil and Sue to arrange for the death before retirement lump sum pension benefits to be placed under trust with Phil and Sue as trustees and Phil, Sue, the children and grandchildren as potential beneficiaries. The trust also to have an expression of wishes along the lines of providing for the survivor of Phil & Sue if a top-up in income or capital is required during their lifetime, thereafter to be divided equally between Andrew and Mark and their issue.

f) Phil to transfer £15,000 from his NS&I Premium Bonds account and Sue to transfer £18,000 from hers over to Mark as a further PET to allow for equal treatment with reference to the earlier gift of £30,000 to Andrew 4 years ago.

g) Phil and Sue to seek legal advice on how to re-draft their Wills to make full use of the third nil rate band potentially available through the estate of Sue's first husband. For instance Phil's Will to provide for a legacy into a discretionary trust for an amount up to the nil rate band and the residue to pass across to Sue, and Sue's Will also to provide for a legacy into a discretionary trust for an amount up to the nil rate band and the residue to pass across to Phil. In the event that Sue dies first, for this planning to be effective we need to ensure she has enough assets in her name to cover 2 nil rate bands, and that Phil has enough assets to cover 1 nil rate band, so I recommend ownership of the house be altered to tenants in common with 50% shares which should cover Phil's estate, and that all non-ISA investments held by Phil in quoted shares, investment trusts, unit trusts and OEICs are transferred across to Sue's ownership.

h) Establish a joint life second death term assurance policy for 7 years under trust to cover the potential IHT liability of £113,200 associated with failed PETs to Mark.

1.4 IHT Payable After Mitigation Measures

I have repeated the calculation assuming 7 years have passed following the PETs to Mark. Referring to the above table, this would remove £350,000 from Sue's building society savings, £15,000 from Phil's NS&I Premium Bonds and £18,000 from Sue's, the French apartment, the pension lump sums and the mortgage from the calculation.

On this basis and using current figures, the nil rate bands and gift allowances available would be £326,000 each (i.e. £325,000 + [2 x £500 annual gift allowance]) plus an additional £325,000 from the estate of Sue's first husband, and there would be a potential overall IHT bill of £137,800.

This compares favourably against the current position of £894,200.

2. Improving Tax Efficiency

Using some assumed income yields for your deposit accounts and investments, and an assumed annual lump sum SIPP pension contribution by Phil of £5,000 gross funded by his bonus, I have estimated your current income, tax and National Insurance contributions in the table below, before any changes to ownership of assets recommended in section 1. above.

Phil's earned income amounts to £88,300 and I estimate his savings and investment income to be £7,990.

Sue's earned income amounts to £12,000 and I estimate her savings and investment income to be £13,270.

Phil pays basic rate tax of £8,122 and higher rate tax of £17,239, giving a total of £25,361 in income tax, and also £4,981 in National Insurance Contributions (NICs).

Sue pays basic rate tax of £3,001 and no higher rate tax, and £510 in NICs.

Between the two of you, your overall gross income is £121,560 and net income is £87,707 with an effective tax rate for income tax and NICs of 27.85%.

2.1 Mitigation

I recommend that you transfer all income producing assets into Sue's name only to avoid Phil paying unnecessary higher rate tax on non-earnings income. Between the two of you, your overall gross income is still £121,560 but this change would have the effect of increasing your net income to £89,404 (an improvement of £1,697) with a lower effective tax rate for income tax and NICs of 26.45%.

Your income and associated tax would be reduced further if you proceed with the Deed of Variation and giving away the French apartment and its associated rent to Mark.

A further point concerning the French apartment, I recommend you take advice from an accountant as to whether it can be treated as a furnished holiday let as it is within the European Economic Area (EEA) and that you can apply for the relevant tax reliefs associated with that.

Other steps you might consider include:

a) Phil using more of his bonus to fund pension contributions, be it through potentially buying added years if the final salary pension scheme will allow, or adding to his SIPP, to gain 40% income tax relief. Alternatively use some of your savings and investments to fund a single premium contribution using the carry forward rules, but this is less worthwhile if the relief is at 20% as opposed to 40%.

b) Moving your highest yielding shares / investment trusts / unit trust / OEIC holdings into Stocks & Shares ISAs using your full allowances of £11,520 each. Indeed if any of your investments are in property or fixed interest, I would move them to ISAs first where the entire income yield is tax free whereas dividends are not.

c) Maximising use of tax free cash investments like NS&I Premium Bonds and Certificates, when they are available.

d) Potential investment into an Enterprise Investment Scheme (EIS), though I do not recommend that you borrow to fund the investment. EIS investments are very high risk so may not be suitable for your attitude to risk or capacity for loss. Income tax relief is available in the year of investment at 30% of the amount invested, and the shares must be held for at least 3 years otherwise that relief is withdrawn. Any capital gains on disposal are tax free and if held for more than 2 years the investment may qualify for a 100% IHT exemption through business property relief.

	Phil £	Sue £	Total £
Earned Income			
Phil salary	60,000		60,000
Phil bonus	20,000		20,000
Phil P11D	8,300		8,300
Sue		12,000	12,000
Sub-totals	88,300	12,000	100,300

Other Income

	Value	Assumed Gross Yield	Phil	Sue	Total
INTEREST					
Phil Bank accounts	28,000	1.00%	280		280
Sue Bank accounts	24,500	1.00%		245	245
Phil Building Society accounts	80,000	2.50%	2,000		2,000
Sue Building Society accounts	385,000	2.50%		9,625	9,625
ASSUMED DIVIDENDS					
Phil Quoted shares / investment trusts	92,000	3.00%	2,760		2,760
Sue Quoted shares / investment trusts	35,000	3.00%		1,050	1,050
Unit trusts / OEICs	40,000	3.00%	1,200		1,200
Unit trusts / OEICs	20,000	3.00%		600	600
RENTAL INCOME					
French apartment			1,750	1,750	3,500
Sub-totals			7,990	13,270	21,260
Statutory Total Income			96,290	25,270	121,560
Less Personal Allowance			9,440	9,440	
Less 4% salary final salary e'ee contributions			2,400		
Taxable Income			**84,450**	**15,830**	**100,280**

Less	Value		Rate	Phil	Sue	Total
Tax on Phil's earnings, first	32,010	at	20%	6,402		
plus extension to BRT band reSIPP pension conts	8,600	at	20%	1,720		
Residue of earnings at higher rate	35,850	at	40%	14,340		
Interest at higher rate	2,280	at	40%	912		
Rent at higher rate	1,750	at	40%	700		
Dividends at higher rate	3,960	at	32.5%	1,287		
Tax on Sue's income	2,560	at	20%		512	
Interest at basic rate	9,870	at	20%		1,974	
Rent at basic rate	1,750	at	20%		350	
Dividends at basic rate	1,650	at	10%		165	
Total Income Tax Payable				**25,361**	**3,001**	**28,362**

National Insurance Contributions	Phil	Sue	Total
Phil (class 1 between primary threshold & upper earnings limit at 12%)	4,044		
Phil (class 1 above upper earnings limit at 2%)	937		
Sue (class 1 between primary threshold & upper earnings limit at 12%)		510	
	4,981	**510**	**5,491**

	Phil	Sue	Total
Your total net income after taxation & NICs is:	65,948	21,759	**87,707**
Average Overall Rate of Tax & NICs (broadly)	31.51%	13.89%	27.85%

3. Retirement Planning

Your target retirement income of £45,000 pa net in today's terms will initially be met by a combination of your employer and personal pensions, Phil's state pension and investment income.

Once Sue's state pension commences in 2022 there will no longer be a reliance on a top-up from your investments until any potential care related costs commence.

In this respect it is important to obtain state pension forecasts to establish how well funded your state pensions are. I would add that changes to your state pensions are planned and that they will be based on the new flat rate due to be introduced in April 2016, calculated as £144pw in today's terms, escalating 2.50% pa.

3.1 Final Salary Pension

Although your gross taxable earnings comprise salary, bonus and P11D benefit I will assume the final salary scheme definition of pensionable salary is limited to salary plus average of last 3 year's bonus, which is a fairly commonly applied definition.

Your present entitlement is £13,333 pa (i.e. [£60,000 salary + £20,000 average bonus] x 10 yrs service / 60).

If we assume pensionable salary escalates in line with earnings at 4% per annum then by age 65 your entitlement will be £20,997 pa taking into account 14 years service.

The element of this pension benefit that was accrued up to 06 April 2005 will escalate in payment at the lesser of CPI or 5%pa.

The element of this pension benefit that was accrued after 05 April 2005 will escalate in payment at the lesser of CPI or 2.5%pa.

We have used a general inflation assumption of 2.5%.

At retirement the scheme will offer you the chance to commute final salary pension for a pension commencement lump sum. Generally the rate of commutation of pension for cash is unattractive as applying the cash to an index-linked purchase life annuity will in my experience always give a lower overall net income.

I have therefore assumed you will take the full final salary pension entitlement and that it will provide a 2/3rd spouse's pension.

3.2 Money Purchase Pensions

I have assumed your pension funds are invested in a medium risk manner with 60% equities, 20% fixed interest and 20% commercial property, generating an assumed total return of 5.0% pa, which after an assumed annual ongoing charge for your pension products of 0.8% pa provides a net return of 4.2% pa.

I have assumed Phil's contributions of 6% of salary rise with earnings at 4% pa, but that the element funded by his bonus is £5,000 pa and does not escalate. Turning to Sue I have assumed her contributions remain fixed at £1,200 pa.

Phil Year	PP fund b/fwd	Annual EE Premiums	EE Bonus Premiums	Growth 4.20%	PP fund c/fwd
2013	650,000	3,600	5,000	27,661	686,261
2014	686,261	3,744	5,000	29,190	724,195
2015	724,195	3,894	5,000	30,790	763,879
2016	763,879	4,050	5,000	32,463	805,391
2017	805,391				
PCLS	**201,348**				
OMO	604,044	805,391			
IL annuity	3.53%	3.53%			
IL annuity	**21,348**	**28,464**	gross pa		

Sue Year	PP fund b/fwd	Annual EE Premiums	Growth 4.20%	PP fund c/fwd
2013	75,000	1,200	3,200	79,400
2014	79,400	1,200	3,385	83,986
2015	83,986	1,200	3,578	88,763
2016	88,763	1,200	3,778	93,742
2017	93,742			
PCLS	**23,435**			
OMO	70,306	93,742		
IL annuity rate	3.23%	3.23%		
IL annuity	**2,274**	**3,031**	gross pa	

I have assumed that in 2017 you will each purchase an index-linked annuity with 2/3rd spouse's pension and 10 year guarantee. For the purpose of the cash flow forecast below I have assumed that no tax free cash is taken but we can review the situation and advise on that in 2017.

Also Phil will want to consider alternative benefit options in 2017 such as flexible drawdown, as the combination of his final salary and state pensions will meet the minimum income requirement.

3.3 Retirement Cash Flow Forecast

The cashflow analysis assumes:

- Full state pensions based on the new flat rate being introduced in April 2016
- Expenditure on living costs per retirement income target of £45,000 pa net in today's terms rises with inflation
- Phil's earnings rise at 4.00%pa
- Your personal allowances for income tax rises from £9,440 this year to £10,000 next and with inflation thereafter
- The basic rate band reduces from £32,010 this year to £31,865 next and then rises at 1.0%pa
- Your investments (capital fund) and pensions are invested in medium risk balanced portfolios with a net return of 4.2%pa
- The capital fund will initially be £514,500 comprising your liquid assets of £897,500 less £350,000 earmarked for Deed of Variation and £33,000 in NS&I Premium Bonds to be passed to Mark
- The mortgage has been repaid, indeed by my reckoning using current monthly payments I estimate repayment in 3 years and 2 months
- Your money purchase pension funds buy standard index-linked annuities in 2017 (I will advise on enhanced / impaired life annuities at the time)
- Neither of you takes any pension commencement lump sum
- General expenditure reduces $^1/_3$ on first death
- You each spend your last three years in care (http://www.pssru.ac.uk/pdf/dp2769.pdf PSSRU/BUPA reports 2.5yr average)
- Care home costs escalate 4.00%pa based on £26,312pa in 2011/12 in the East Midlands (www.payingforcare.org) or £28,460pa in today's terms
- Income shortfall met from, and surplus income invested into the capital fund.

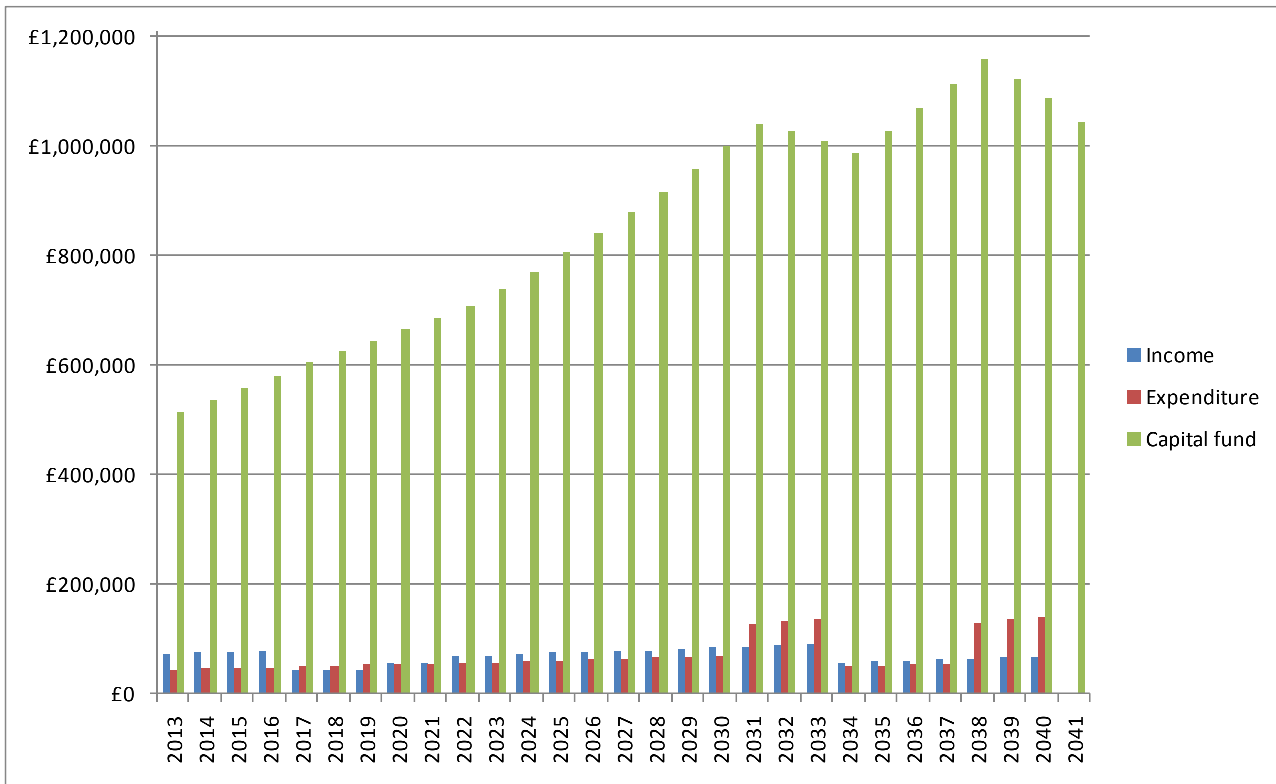
At retirement in 2017 the projected capital fund of £606,536 covers the estimated income shortfall of £6,143 pa with projected net pensions of £43,508 and expenditure target of £49,672.

The income shortfall continues until 2022 when Sue's state pension commences and there is a surplus of income over expenditure target of £1,850.

The capital fund continues to accumulate to over £1 million until 2031 - 2034 at which time it is drawn on to cover the first set of potential care costs for Phil.

Thereafter it accumulates again until 2038 - 2041 at which time it is drawn on to cover the potential care costs for Sue.

Assuming average life expectancy the capital fund will be worth £1,045,850 in 2041, or £523,843 in today's terms.



The house is not included in the cash flow forecast allowing substantial provision for contingent measures.

3.4 Comments

The capital fund provides substantial supplementary provision for topping up incomes in retirement. This added comfort would make the option of flexible drawdown at 65 a more serious consideration.

I have considered whether Phil's pension benefits might breach the lower lifetime allowance (LTA) of £1.25 million coming in on 06 April 2014. If the LTA remains at £1.25 million when Phil retires at 65, his projected final salary pension of £20,997 might account of 33.5% of the LTA. His projected SIPP fund of £805,391 might account for a further 64.5% of the LTA. This is a very close call, and suggests increased pension funding in addition to existing contribution levels is not worth considering. Furthermore if SIPP fund growth is good over the next 4 years, or Phil gets a significant payrise increasing his final salary pension, he may breach the LTA.

I would not recommend applying for Fixed Protection 2014 as that would prevent future benefit accrual over the next 4 years. However I would recommend looking closely at Individual Protection 2014 which is expected to be available from 06 April 2014 and which HMRC is drafting rules for (nothing finalised yet) that would allow future benefit accrual and might provide some future protection against the LTA at 65.

Further the above and the cash flow forecast demonstrate that there is little financial planning need to substantially increase pension contributions, indeed by maintaining a significant capital fund there will be more flexibility over making gifts later on, either out of surplus investment income or as capital (i.e. PETs).

Finally, on the basis of secure employment in Phil's current role to age 65, I would estimate there is sufficient capacity for loss to make an EIS investment of £50,000.

Phil should make the investment when he has significant higher rate income tax liability to make the most of the 30% income tax relief, but ideally defer the investment until age 64 so you can be sure you have had the benefit of continued employment and benefit accrual.

Conversely were Phil to lose his job prior to then, I would advise against making an EIS investment on the grounds of reduced capacity for loss.

4. Provision for Susie

In 1.3 c) above I have recommend £250,000 is set aside in a discretionary trust as part of the proposed Deed of Variation concerning Sue's mother's estate.

I recommend Phil, Sue and Andrew as trustees and Andrew, Gemma, Susie and any future issue as potential beneficiaries. The trust also to have an expression of wishes along the lines of providing for a top-up in income or capital for Andrew or Gemma, and providing income only (no capital) for future costs for Susie etc.

I recommend the trust assets are invested in a highly segmented offshore investment bond that allows policy segments to be assigned and then encashed a number of months later.

I recommend a medium risk portfolio of low charging OEICs and unit trusts are held within the bond with 60% in equities, 20% in fixed interest and 20% in commercial property.

This trust fund should be earmarked for the future care costs of Susie, perhaps when Andrew and Gemma are alive but more importantly when they have passed away.

4.1 Existing Discretionary Trust Investments

The discretionary trust established 9 years ago for all future grandchildren is now worth £87,000 and invested in a portfolio of collectives with 50% equities, 40% fixed interest and 10% commercial property.

Given the original aim for this to be for all grandchildren and there may be more to come in the future, I do not think this trust should be earmarked as provision just for Susie's future care costs. However Susie's share of the trust can be used to provide for her in the meantime, perhaps by assisting her onto the property ladder with a deposit for a mortgage when she is 25 for instance.

Assuming typical income yield of 3% pa gross I estimate this portfolio will yield around £1,300 pa dividend income, £1,050 pa interest and £260 pa rental income.

Please note discretionary trusts are taxed on investment income as follows:

- First £1,000 of investment income at 10% on dividends and 20% on interest / rent
- Residue of investment income at 37.5% on dividends and 45% on interest / rent.

I estimate the income tax that the trust will have to pay through self-assessment is £806.75, equating to a 1% pa drag on future capital growth. This is very inefficient, not to mention the associated ancillary costs also of professional fees for filing a tax return each year.

I recommend migrating the portfolio across to a highly segmented investment bond where the internal tax within the bond is limited to 10% on dividends and 20% on interest / rent. The investment size is too small to justify the charges associated with an offshore bond where greater economies of scale are required.

Once the whole portfolio is invested through the investment bond, the trustees can file nil returns for self-assessment thus also reducing trust associated running costs.

Care will be required when migrating assets into the investment bond as disposals will be required thus potentially triggering capital gains tax (CGT) liabilities. The trust will have an annual CGT allowance of £5,450 and any gains exceeding this will attract CGT at 28%.

I note the initial gift into the trust 9 years ago was £40,000 and that there may have been 8 or 9 gifts since in the region of £5,000 pa thus giving a potential total base cost for the portfolio of £80,000 to £85,000. On this basis I would suggest the existing trust assets could probably be disposed within the annual trust CGT allowance within 1 to 2 tax years.

I would finally add that the 10 year periodic tax charge falls due next year but it should be nil as the trust fund is well within your nil rate band entitlements.

5. Other Issues

As well as reviewing your Wills I recommend you each apply for Health & Welfare and Property & Financial Affairs LPAs which are legal documents that let you appoint someone to make decisions on your behalf should you become incapacitated. I recommend you appoint each other and Andrew and Mark as Attorneys.

The Office of the Public Guardian registration cost is £130 per LPA or £520 in total. Your solicitor can assist, but you can also apply direct to the Office of the Public Guardian.
https://www.gov.uk/government/publications/make-a-lasting-power-of-attorney

For future reference, I also suggest Andrew and Gemma apply for LPAs for Susie when she is 18.

Turning to your capital fund, I recommend using a low cost wrap platform allowing access to a platform of thousands of unit trusts / OEICs and also the stock market providing access to individual shares, investment companies, ETFs, fixed interest securities etc

My preference is to focus on unit trusts and OEICs as they benefit from cover under the Financial Services Compensation Scheme up to the first £50,000.

My choice of wrap platform provider is driven by cost to minimise reduction in yield and maximise potential returns ahead of inflation. I therefore recommend using Alliance Trust Savings to establish two Stocks & Shares ISAs (one for Phil, the other for Sue) and two Investment Dealing Accounts (again one for Phil, the other for Sue) for non-ISA investments.

In practical terms no investments will be held in Phil's dealing account except for perhaps a few days in a year when Sue transfers a holding across so it can be sold in Phil's name to use his CGT allowance of £10,900. The proceeds can then be used to assist with funding annual Stocks & Shares ISA subscriptions, presently £11,520 each.

Alliance Trust Savings charge £48 pa per account and £12.50 per deal. Based on this, the annual platform charge across 4 accounts would be £196 pa (i.e. 4 x £48) which is far cheaper for the amounts you have invested than the ad valorem charge made by other wrap platform providers.

My typical client portfolios through Alliance Trust Savings have an ongoing charge figure of 0.6% - 0.8% per annum. My ongoing service fee of 0.50% per annum is in addition to this.

I have concerns over the potential fixed interest exposure of your investments as the outlook for gilts and investment grade corporate bonds is poor. The outlook for commercial property is more positive so I recommend reducing exposure to fixed interest in favour of property funds with income yields of 3% or more, and where you continue to hold fixed interest, focus on index-linked bonds and strategic bond funds. On the matter of equities, I would favour UK equity income and global equity income holdings where the income yield can be re-invested and form a more significant part of the total return.

Finally I would enquire about potential future expenditure items and associated provision for:

- Assisting for school or university related costs for grandchildren

- Developing your home to provide flexible accommodation so a live-in carer can stay should you opt to receive care in your own home

- Replacing cars, particularly Phil's company car at 65 and thereafter

- Special holidays, it is important to do the things you really want to whilst you are fit and able.

I would be reluctant for you to make further capital gifts out of the capital fund until we have completed our discussions on these matters.

That concludes my comments.