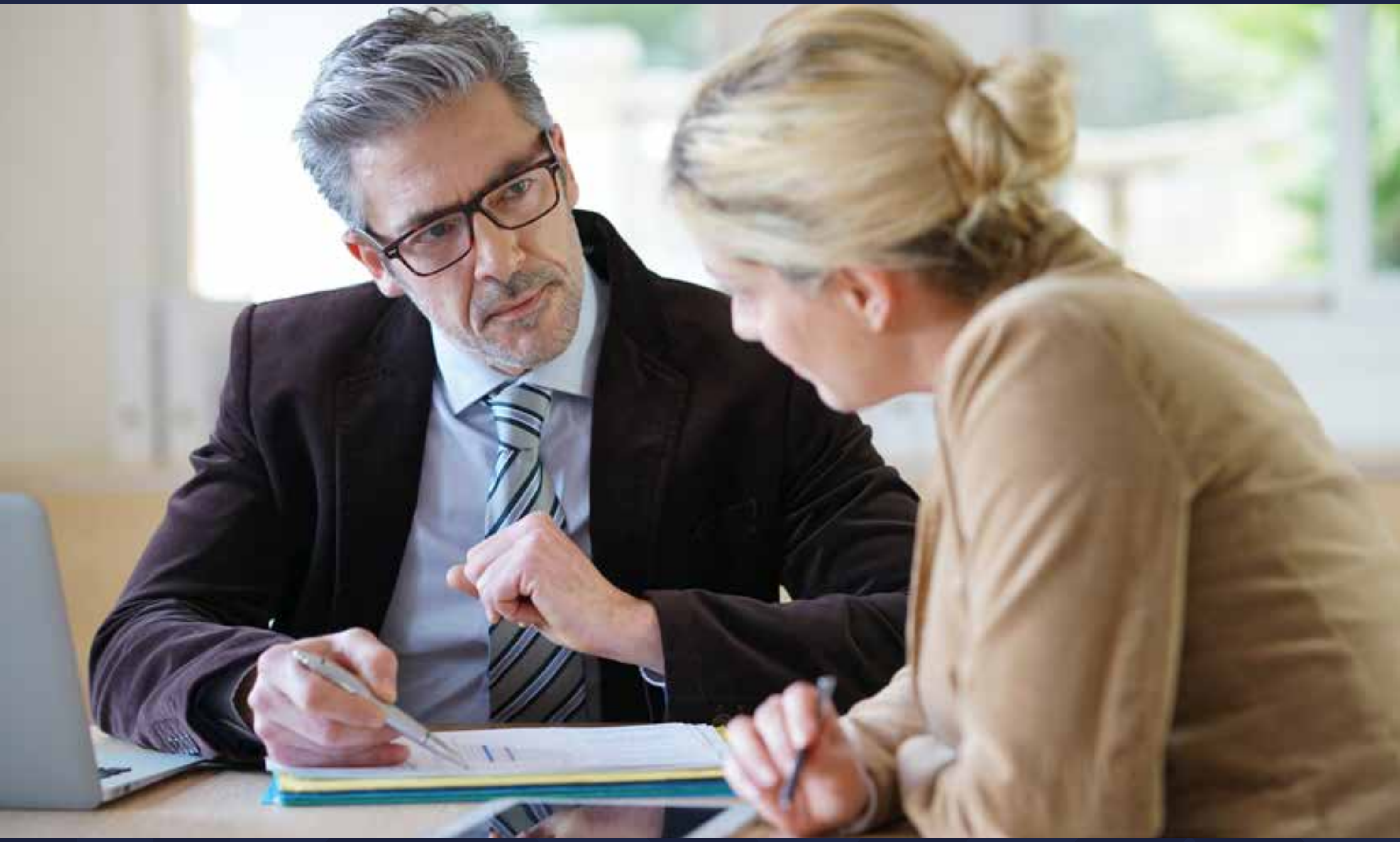
BUCKINGHAM GATE



HOW TO CHOOSE A FINANCIAL ADVISER

This communication is for general information only and is not intended to be individual advice. It represents our understanding of law and HM Revenue & Customs practice. You are recommended to seek competent professional advice before taking any action.

INTRODUCTION

This guide provides you with questions you should be asking a financial planner before making an appointment.

In order to provide you with advice, a financial planner will ask you a number of questions regarding your finances, health and personal circumstances that many people would find uncomfortable discussing with a stranger, so it is very important that you take the time to appoint somebody that you feel at ease with, both on a personal and professional basis.

This guide also describes how financial planning at Buckingham Gate Chartered Financial Planners works, and what differentiates our firm from other financial planning firms. Finally, we will go through three case studies to illustrate how the services Buckingham Gate Chartered Financial Planners provides meet the needs of our clients.

CONTENTS

10 QUESTIONS TO ASK YOUR FINANCIAL ADVISER

As one of the main professional bodies in the UK for financial planners, the Institute of Financial Planning has set out 10 questions that you should ask before making any decision on appointing your adviser.

1. WHAT ARE YOUR QUALIFICATIONS?

There are a number of financial planning qualifications available for financial advisers in the UK, and their level and complexity varies considerably. The Retail Distribution Review in 2013 increased the minimum qualification required for a qualified financial adviser to QCF (Qualification and Credit Framework) level 4, which is the equivalent to the first year of a university degree.

An adviser must be a member of a regulated professional body, and the two main organisations in the UK are the Personal Finance Society and the Institute of Financial Planning. Members of these organisations who hold the QCF level 4 qualification will be able to use the designation "Dip PFS" or "Dip FA". From the client's perspective there is little difference between the two, and advisers are free to choose which professional body they want to be a member of (many are members of both).

A number of planners have taken the decision to go beyond the minimum qualification and will hold QCF level 6 qualification (equivalent to an Honours Degree) and will be allowed to use the designation "Chartered Financial Planner" or "Certified Financial Planner". These individuals will be able to advise on more complex matters, and would have specialist qualifications to advise in areas such as defined benefit transfers, estate planning and discretionary investments.

In addition, it is possible for advisory firms to apply for Corporate Chartered status to show their commitment to meeting the highest standards of excellence and professionalism.

2. WHAT EXPERIENCE DO YOU HAVE?

While qualifications are important, you should also consider the experience of your financial planner. You should ask them how long they have been practicing, the types of firms that they have worked for in the past and how it relates to their current practice and their service proposition. For example, a newly qualified adviser may not have the necessary experience to advise on more complex matters.

3. WHAT SERVICES DO YOU OFFER?

The level of services offered by financial advisers can vary considerably depending on their credentials and areas of expertise – for example, many advisers will not have the necessary qualifications to advise on pension transfers from defined benefit schemes. Others will only provide specialist advice on specific areas such as estate planning, but would not offer advice on other areas such as mortgages.

You should ask to see a copy of the firm's Client Agreement which should set out the level of service that will be provided as well as the costs involved.

RESTRICTED VS INDEPENDENT ADVICE

A restricted adviser may only be able to offer advice on a limited range of products, and in many cases they are employed by a single provider and can provide advice on their products only.

An independent financial adviser is able to provide "whole of market" advice – they will act on your behalf as your agent and will have no affiliation with any particular product provider or company.

An adviser must disclose whether their advice is independent or restricted at the initial meeting, and you should not proceed with any appointment until the basis of advice has been confirmed. You should consider whether the financial planner has a potential conflict of interest while working for you that could inhibit them from acting in your best interests. If a planner has a business relationship with the provider that supplies the recommended product (e.g. is employed by them) then this should be clearly disclosed.

4. WHAT IS YOUR APPROACH TO FINANCIAL PLANNING?

Different firms have very different approaches to financial planning, and you should ask the financial planner about the type of clients and financial situations they typically like to work with. Some will provide advice on specific areas only, while others will offer a more holistic approach and will help you develop a comprehensive financial solution for all your financial needs.

You should ask if your planner offers lifetime cashflow modelling which looks at your assets, income, liabilities and expenditure to help you understand how your current financial situation will change in the future using a number of assumptions. For example, it can be used to determine if the value of savings and investments at retirement are adequate to meet a required level of income throughout retirement, and to make adjustments if required.

As a client, you should be aware that a comprehensive advice approach with cashflow modelling requires a greater level of commitment from you when compared to advice on a specific area. It may involve several meetings over a number of months to collate all of the information on your current circumstances, and to present formal recommendations. It may well involve a recommendation that a client has not fully considered – an example would be a couple with young children who are primarily interested in investment advice, but have made no provisions for their family in the event of illness or death.

FINANCIAL ADVICE VS FINANCIAL PLANNING

Financial advice is normally based on a technical or product based solution, while financial planning is more focused on lifestyle objectives and implementing a solution to meet those objectives. However, in reality, many financial advisers have rebranded themselves as planners, and the two terms are now often used interchangeably.

Many firms will offer both services depending on the client's specific needs.

5. WILL YOU BE THE ONLY PERSON WORKING WITH ME?

In many firms, your financial planner will be supported by a team of people with different skills to help them deliver a high quality service. Many firms will use paraplanners who are technical experts who assist the adviser to research and formulate recommendations, allowing the adviser to spend more time with clients. You may want to meet with some of these people to decide if the firm is right for you.

You should also consider what would happen if your adviser is unavailable while on holiday or due to illness – who would be responsible for your ongoing advice in their absence?

6. HOW WILL I PAY FOR YOUR SERVICES?

A good quality financial planner will be happy to discuss their fees and charges in an open and transparent manner, and should be able to demonstrate that their fees represent value for money.

They should confirm in writing how they will be paid for their services and explain the payment methods available to you. The Retail Distribution Review banned the payment of commission to financial advisers by third party providers in relation to the sale of investment products, and so any investment advice will involve paying a fee. This can be based on an hourly rate, a flat rate or a percentage of assets invested, and in most cases can be deducted from the investment or paid direct.

Protection products such as term assurance can continue to pay commission, and the amount payable is usually a percentage of the regular premium payable. This commission may be offset against fees due, and reduce the amount payable by you. Alternatively, you should be offered the choice of purchasing the product on a nil commission basis – this would reduce the regular premium payable, but would mean that the fee due is payable in full by you.

If a firm provides an introduction to other professional services such as an accountant or solicitor, any introducer's fee payable to them should be disclosed to you.

7. WHAT DO YOU TYPICALLY CHARGE?

While the amount you pay your planner will depend on your particular needs, the planner should be able to provide you with an estimate of possible costs based on the services required before any chargeable work is undertaken.

8. HOW ARE YOU REGULATED?

All advisers and firms who recommend investment products in the UK are authorised by the Financial Conduct Authority (FCA) who oversee the regulation of financial products and those who provide advice on them. You can check if a firm or individual adviser is authorised and regulated by the FCA by searching their register which is available online. (www.fca.org.uk/register).

The register will also provide details of any disciplinary action undertaken by the regulator for any unlawful or unethical actions undertaken by a regulated firm or individual.

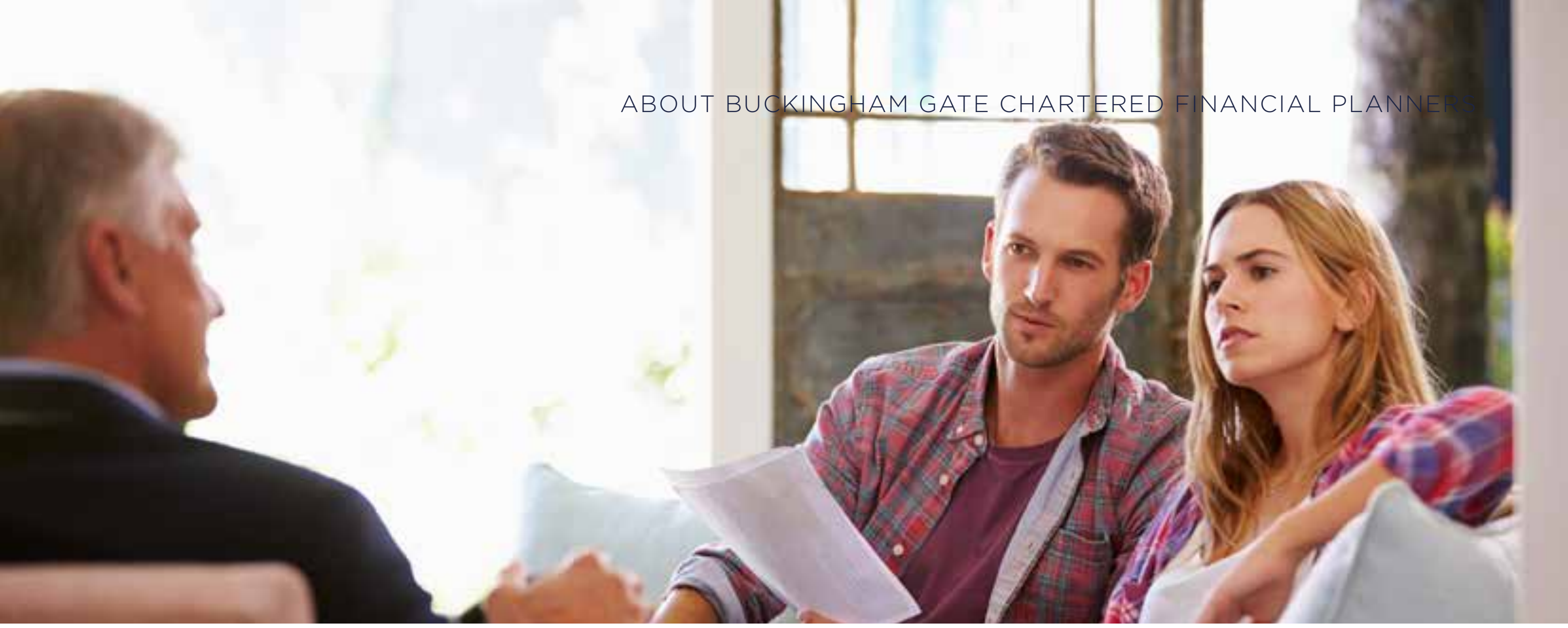
9. HOW OFTEN WILL YOU REVIEW MY SITUATION?

Good financial planning is an ongoing process that takes account of changing circumstances in the future, making the necessary adjustments to your plans. Most financial advisers will undertake a review of your situation (at least annually) to ensure that any recommendations made are still suitable.

There will be additional ongoing charges for this review service, and you should ensure that the cost, frequency and format of reviews is clearly explained to you before proceeding. You are under no obligation to accept an ongoing review service, but if you do not choose to have ongoing reviews the responsibility of ensuring that the recommendations made remain appropriate in the future rests with you.

10. CAN I HAVE IT IN WRITING?

You should receive written confirmation of the agreed services and costs from the planner which you should retain for future reference. In particular, if you have agreed to pay for an ongoing review service this should be confirmed in writing, and you should ensure that the format and frequency of reviews is adhered to.



ABOUT BUCKINGHAM GATE CHARTERED FINANCIAL PLANNERS

Buckingham Gate Chartered Financial Planners are based in the heart of central London, however we serve clients from across the UK.

As one of only a few Chartered Financial Planning firms in the UK, our clients can expect the very best standards of service.

All of our advisory staff hold Chartered Financial Planner status with the Personal Finance Society which shows their commitment to raising their standards of knowledge, capability and ethical practice. Having such highly qualified individuals means that we can offer services that many other firms would shun, such as complex pension planning around such issues as the lifetime and annual allowance as well as the new pension freedom rules. We also employ support staff to assist our advisers with report writing, administration, technical updates and client research.

We also provide specialist estate planning services without the need to refer you to a solicitor or other legal professional. In conjunction with our legal partners, we are able to provide many of these services in-house and can include cases where people are looking to mitigate Inheritance Tax on their estate on death, or looking to protect their estate for the benefit of their children and grandchildren (and even beyond).

SEMINARS

We host seminars on a monthly basis in central London on topics such as retirement planning and estate planning, and after these seminars we offer attendees the option of a Discovery Meeting to discuss their own circumstances and concerns. Prior to the meeting we ask clients to complete our Discovery Document to give a brief outline of their situation, and to bring along any relevant documentation to discuss during the meeting.

At the end of this meeting, we provide a fee agreement which details the tasks to be completed based on the needs of the individual, and our costs for completing this work. A prospective client is under no obligation to proceed, and chargeable work would only commence once written agreement has been received from the client.

We would encourage all prospective clients to attend one of our seminars, which are free to attend and would allow you to get to know the team and find out about how we may be able to help you.

CASE STUDY 1:
JOHN & SARAH PARKER

John (42) and Sarah (35) are married with two children, George (3) and Jane (1). John is an account executive for a major motoring firm earning £58,000 per annum and Sarah works part-time as a teacher earning £25,000.

They would like to have another child in the next year or so and if this were to happen, it is likely that Sarah would have to look after the children on a full time basis.

Sarah has recently received an inheritance of £200,000 from her late mother, and they would like some advice as to the best way to invest this for the long term security of their family and to potentially meet the cost of university fees in the future. They would also like a review of their overall financial situation to ensure their plans for financial security (now and in the future) are on track.

John is a member of his employer's pension scheme which is valued at just over £20,000 and both he and his employer make pension contributions of 5% of basic salary. He also has four times death in service cover and income protection if he was unable to work due to illness or accident. Sarah is a member of the teacher's defined benefit scheme, but has no other employee benefits.

They have a repayment mortgage of £150,000 which will be paid off when John is 65, and they have a term assurance plan to meet this debt should either of them die before the mortgage is repaid. Their home is valued at £650,000.

They were going to set up Wills when George was born but never got around to it, and would like to set these up as soon as possible.

CASHFLOW ANALYSIS AND EMERGENCY FUNDING

We carried out a cashflow analysis of their income and outgoings, and showed that their net monthly income was more than sufficient to cover their outgoings of £3,000 per month (including £500 per month for their mortgage). We looked at the scenario of Sarah giving up work in 12 months time, and while things would be tight, we showed that they would still be able to cope with the loss of her income.

They held £5,000 in a joint deposit account, and our first recommendation was that they should retain £10,000 of Sarah's inheritance to top up their cash reserves. We would recommend that clients have between three to six months of outgoings covered by an easily accessible investment such as a cash deposit to prevent the encashment of investments at inopportune moments.

PROTECTION

Our next priority was looking at the protection in place should either of them die or be unable to work. While their mortgage would be paid off if either of them died, there was no provision in place to replace the lost income of the deceased. If John were to pass away, Sarah would receive £252,000 as a lump sum from John's death in service and pension fund.

While this would be useful to meet living expenses in the short to medium term, it was likely to be inadequate to replace all of the income that John would have earned if he had worked until 65 before retiring. Another consideration was that while death in service is a very useful benefit to them, this is dependent on John's employment – if he were to lose his job, or work for another employer who didn't have this benefit, then this cover would no longer be in place.

Sarah's parents have both passed away, and John's parents live in Australia, so it became apparent that they have no family close by who could help with childcare etc if one of them was to pass away. As well as Sarah being unable to work on a full time basis due to childcare obligations, it is likely that John would have to scale down his workload to look after the children if anything happened to Sarah, and so his earnings would reduce considerably.

Taking all of the above points into consideration, we recommended the following:

- The sum assured and the monthly premium for the existing term assurance plan was adequate for their needs and should be retained.
- They should both take out Family Income Benefit plans – if one of them were to pass away, the survivor would receive a monthly payment that would meet their living expenses. On the assumption that some or all of their children may attend university, this cover was put in place for 25 years, and the monthly benefit would increase in line with inflation to protect the buying power of these payments.
- The plans would be written under trust to ensure that these payments were not part of the deceased's estate, and were not included for the purposes of calculating Inheritance Tax. They were both appointed as trustees along with Sarah's brother who could oversee matters in the event that they both died at the same time.

TAX CONSIDERATIONS

As John's income is in excess of £50,000 and he has two children under the age of 16, he is liable to the High Income Child Benefit Tax Charge. This means that while Sarah receives the child benefit much of this is recouped from John via an additional tax charge.

We recommended that they use £4,000 of Sarah's inheritance as a net pension contribution into John's pension. This will be grossed up to £5,000 by the provider and he would be able to claim another £1,000 tax relief from HMRC via self- assessment. In addition, his earnings for the purposes of the Child Benefit Tax Charge would be just over £50,000 so saving him another £895 in tax. This could be continued in future years using the inheritance money or work bonuses.

INVESTMENT

Neither of them had used their ISA allowance for the current tax year so our next recommendation was that they both use the allowances in full for the current tax year. The current allowance is £20,000 and an ISA provides tax free growth and income.

The remaining £155,000 of the inheritance was placed in a General Investment Account in joint names – this investment is similar to an ISA but doesn't have the same tax advantages. Any income and capital gains are subject to tax, but by putting the investment in joint names, it allows the tax liability to be spread between them both and use two capital gains allowances to minimise capital gains tax.

Both ISAs and the General Investment Account were held on a platform with a single provider as this allowed us to use the General Investment Account to fund ISA contributions for John and Sarah in future tax years, so that over a period of time, all of the investment will benefit from the tax privileged status of an ISA.

Currently they have no requirement for additional income, but if Sarah was to give up work, the investments could be used to provide regular income, and any income from the ISAs would be tax free. It may well be worthwhile to transfer ownership of the General Investment Account to Sarah's name only in this scenario – any income would be within her personal allowance, and as transfer of ownership was between spouses, there is no capital gains tax to worry about.

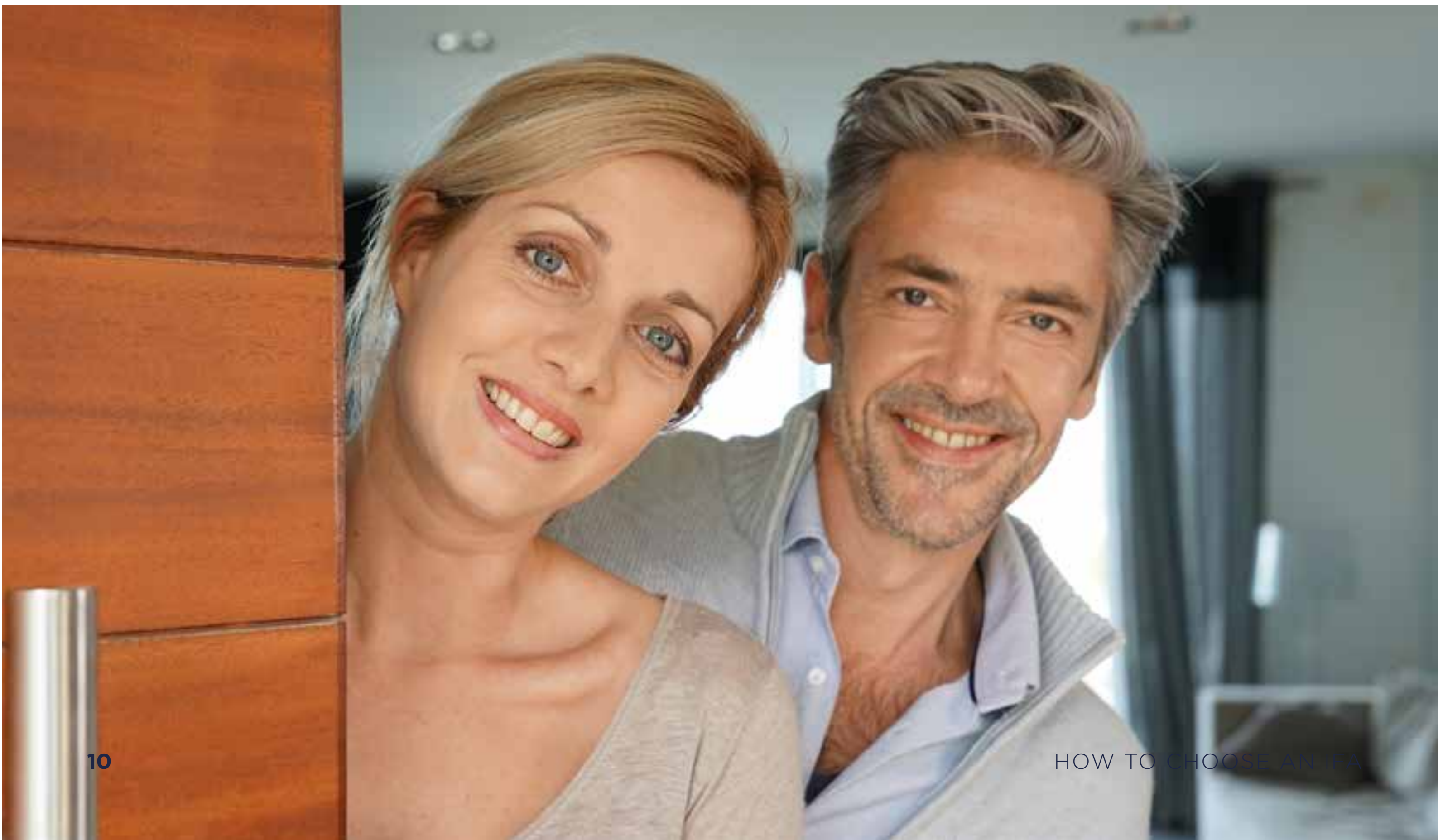
ESTATE PLANNING

While the payment of John's death in service and pension to Sarah in the event of John's death would not create any immediate liability to Inheritance Tax, it may well do so in the future on Sarah's death. If Sarah did not spend this money and passed it onto their children on her death, then it is likely that her estate would be in excess of the nil rate band allowance (even taking into account John's nil rate band) and any excess is liable to 40% Inheritance Tax. This scenario is only going to get worse as John gets salary increases (and his death in service benefit increases), their investments grow in value and their mortgage is reduced etc.

Our recommendation was that John created an Asset Preservation Trust to receive his death in service and pension lump sum payments in the event of his death. The Trust would nominate Sarah and their children as beneficiaries, and Sarah could use the assets within the Trust during her lifetime. On her death, the assets can be passed onto their children and the Trust will be written so that it can benefit future generations.

We spoke about the dangers of outright inheritances and how assets can be lost in scenarios such as the remarriage of the surviving spouse and subsequent divorce, bankruptcy, care home fees etc. We recommended that John and Sarah created Wills that left everything on death to a Beneficiary Protection Trust naming the other spouse and children as beneficiaries.

All of the paperwork to create the Wills and Trusts were completed by us as part of the overall implementation, and did not involve the clients having to deal with a third party.



CASE STUDY 2:
JAMES HORGAN AND CHRISTINA CHOPRA

James is 58 and has a long-term partner Christina who is also 58. They have a son and a daughter who are now financially independent.

James runs his own dental practice with his son, and the intention was that James would work until 65 or so and his son would then take over the business. Christina is a housewife and has a couple of small pension plans from previous employments.

A year ago, James had a minor stroke and has just recently returned to work on a part-time basis. He is unable to carry out any dental work and the work he does is purely administrative. As his son has taken over the day to day running of the business, James has limited his drawings from the business to £10,000 per annum for the moment.

Over the years, James and Christina have made a number of different investments such as personal pensions, ISAs, investment bonds and direct shareholding accounts with a number of different providers, and while he has accrued a good pension with the NHS scheme, neither he nor Christina feel comfortable that they have accrued sufficient assets to support them both in retirement, which is why James has returned to work.

James and Christina are unmarried and while they do have Wills, these were set up over twenty years ago and they feel that they should be updated. James was married just after leaving university but the marriage only lasted a couple of years, and he has had no contact with his ex-wife or his daughter from this relationship for over twenty five years.

He wanted to ensure that in the event of his death, his assets passed to Christina and their two children and would be protected from any claim from his ex-wife and their daughter.

CASHFLOW ANALYSIS AND EMERGENCY FUNDING

As they had so many different investments with different providers, they had found it increasingly difficult to keep track of these, and so felt quite insecure about their overall financial position. We obtained valuations of all of their plans which confirmed that they had over £500,000 in various ISAs, pensions and other investments as well as £150,000 in cash.

We looked at their income and outgoings to build a cashflow analysis. James' NHS pension, as well as both of their state pensions, provided a good foundation for income in retirement. We were able to conclusively demonstrate that even if James gave up work immediately and took his NHS pension early, they had sufficient assets to meet any income shortfall before their state pensions became payable at 66.

As relatively cautious investors, they had accrued cash deposits which were more than sufficient to meet any emergency expenditure. They were well aware that in the current environment of low interest rates that the returns on cash were pretty paltry, and after discussions, we agreed that they were comfortable in using £50,000 of their cash holdings for investment purposes.

TAX PLANNING

If they were to take all of their pensions immediately, James would be a basic rate taxpayer and Christina's income would be well within her personal allowance and so tax free. Therefore, we recommended that any income producing investments such as cash and non ISA investments be held in Christina's name as all of this income would be tax free.

INVESTMENTS

It was evident that they were struggling to manage their investments, and so we recommended that they consolidate the majority of their investments onto a platform. From a total of 19 different investments, we were able to simplify this to :

- A self invested pension for Christina taking an annual income of £10,000.
- ISA accounts for James and Christina.
- A General Investment Account held in joint names.

By having all of these investments in a single place, they can see exactly what their financial situation is at a glance.

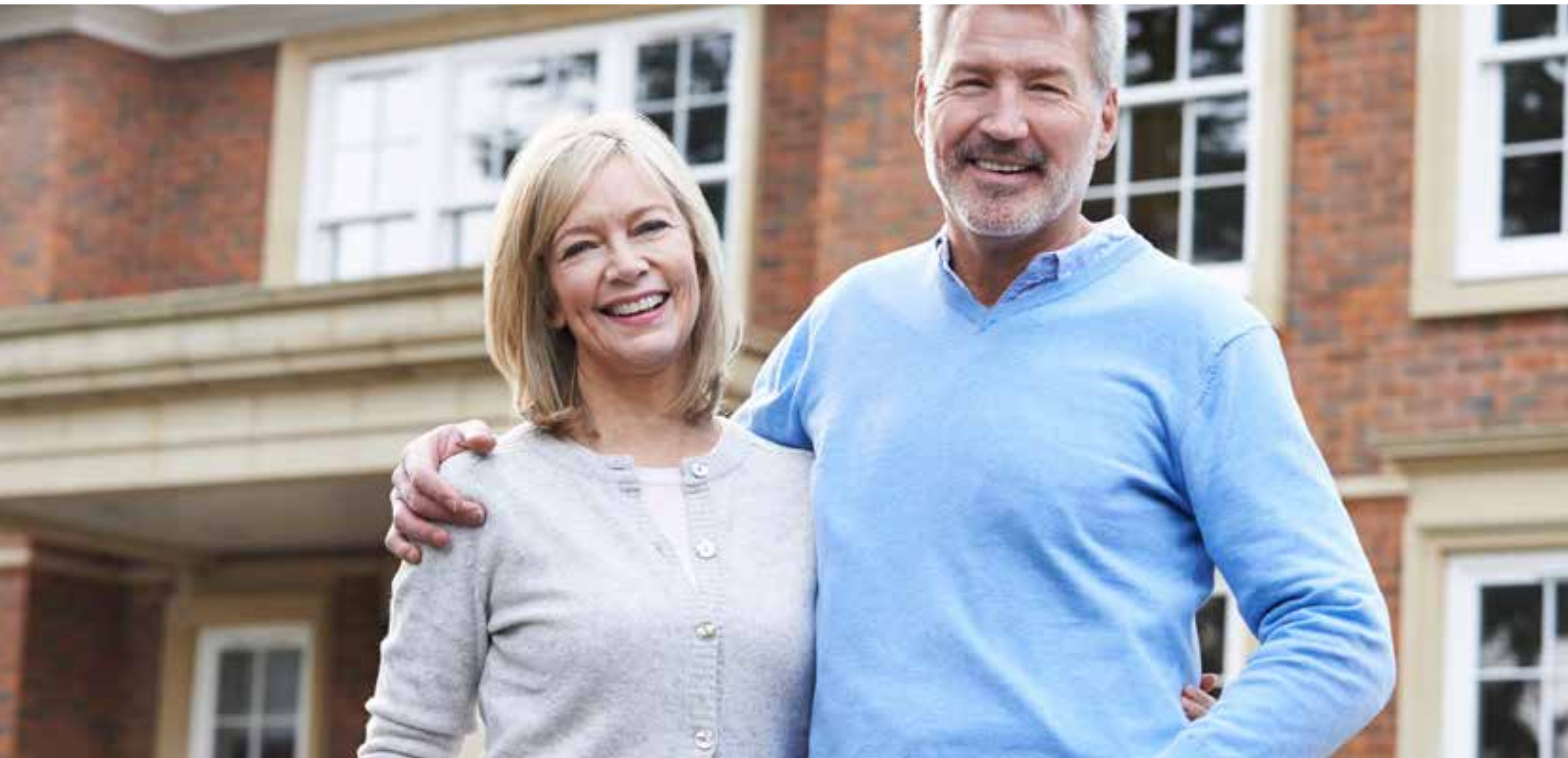
All of these accounts were invested in the same model portfolio based on their attitude to investment risk. The funds in this portfolio were selected by us and the portfolio is reviewed on a three monthly basis with regular rebalancing. This gave them the comfort of knowing that their wealth was being proactively managed, and changes would be made if necessary.

ESTATE PLANNING

We set up new Wills for James and Christina to leave everything to their two children on their deaths. James wanted to give the business to his son immediately and after discussing with their children, their Wills were written to ensure that their other child would receive the majority of their estate on death as compensation. The Wills set up Beneficiary Protection Trusts for each child, with an unequal distribution to take into account the gift of the business.

Their main residence was mortgage free and held on a joint tenants basis – we arranged for this to be changed to a tenants in common basis so that on the death of either James or Christina, the survivor would not have sole ownership of the house in their own name. Instead, the deceased's half of the property would be owned by the Trust, and this would protect this asset from any future Inheritance Tax liability, and protect the residence from being claimed by the local authority to fund potential care fees for the survivor.

The Trusts clearly named the surviving partner, their two children and their future offspring as beneficiaries. As James' ex-wife and daughter from this relationship were not named as beneficiaries, they would have no claim on the Trust assets.



CASE STUDY 3:
MICHAEL HARRINGDON

Michael is 62 and after a number of years working in the City, he set up his own property development business ten years ago.

This has been very successful for him and he earns somewhere in the region of £800,000 per annum. During his time working in the City, he was in his ex-employer's Defined Benefit Scheme – he has also built up a large personal pension fund and has a preserved pension from another provider.

With the introduction of pensions freedom in April 2015, he is keen to look to use his pensions to fund further property purchases as he feels that it is unlikely that he will ever need the income from these pensions during his lifetime. He has contacted the provider with the preserved pension, but has been told that this preserved plan cannot be taken as a lump sum. He could transfer it to another provider, but because this plan has a guaranteed annuity rate (and so are classed as safeguarded benefits) and the value is over £30,000, he must take financial advice before a transfer can proceed. He is also strongly considering transferring his Defined Benefit pension to his personal pension and taking this out as a single lump sum payment as well.

ANALYSIS

Michael feels that he has a good knowledge of investments, and understands the tax implications of taking out this pension as a lump sum. Therefore, he initially asks that we limit our advice to facilitate accessing this preserved pension only. However, we make him aware of the importance of getting a full overview of his entire pension provision before any final decisions are made, and he agreed to this.

We contacted all of the providers and quickly realised that the total value of his pension funds was almost £2 million which was well in excess of the Lifetime Allowance of £1.25 million at the time – this means that when he takes his pension benefits, everything in excess of the Lifetime Allowance will be liable to a 55% tax charge if taken as a lump sum.

The Lifetime Allowance was reduced to £1 million from £1.25 million in April 2016, and in order to ensure that those who were already above the £1 million threshold were not unfairly treated, they were allowed to apply to retain the old limit as long as they made no future contributions into a pension scheme. We investigated the values of the pensions on April 2016 and were able to confirm that they were in excess of £1.25 million, and no pension contributions had been made from this date.

Before any benefits were taken we submitted an application on Michael's behalf to retain the previous allowance. While this had not entirely alleviated the Lifetime Allowance charge, it would reduce it by £137,500.

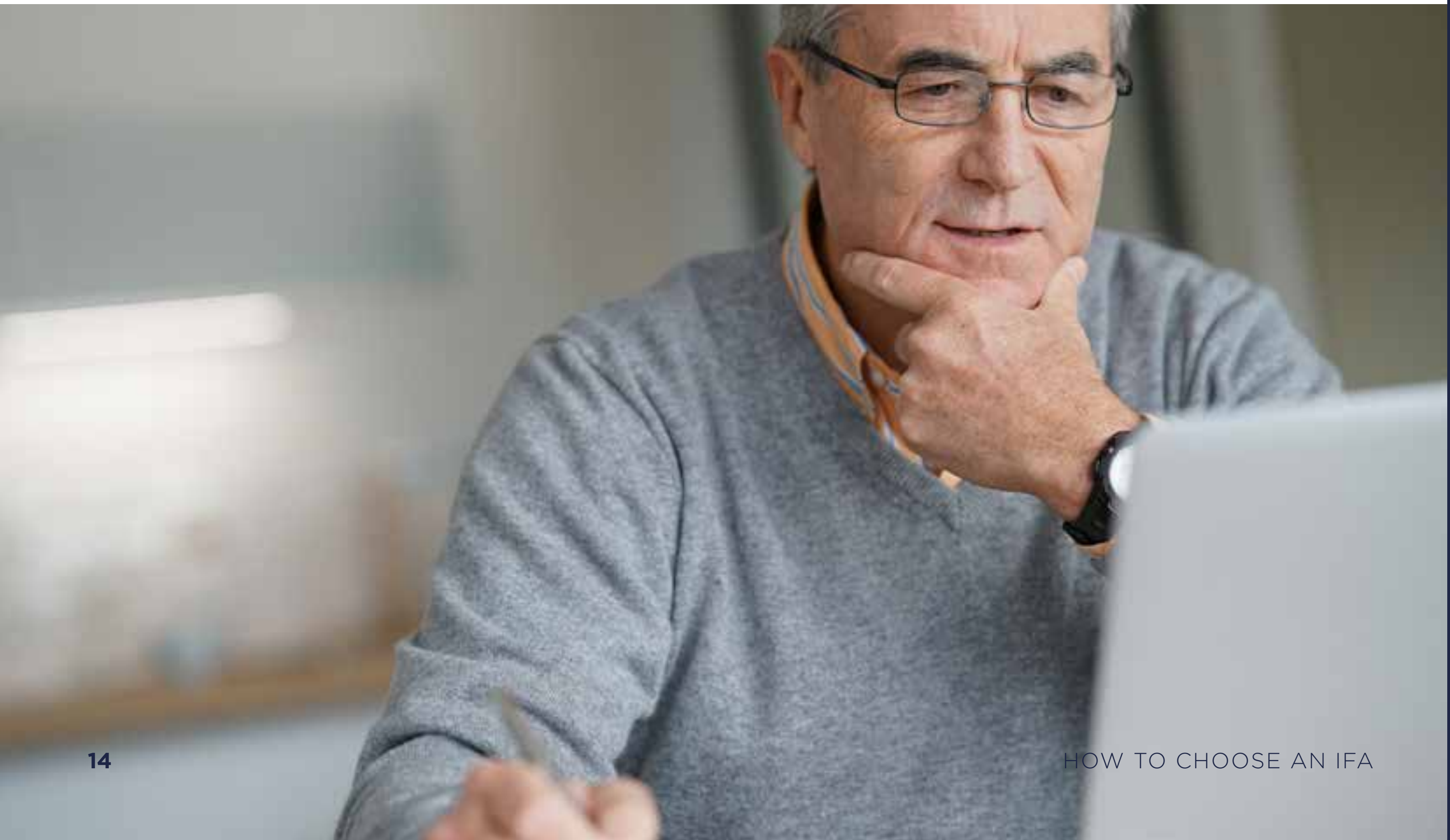
He had accrued 25 years membership under the Defined Benefit scheme, and as all of his membership was prior to 2006, we asked the scheme to check if Michael had any protected tax free cash entitlement. They confirmed that he did, which meant that his tax free cash entitlement was 45% of the transfer value offered to him – if he were to transfer this to his personal pension, only 25% of the transfer value could be taken as tax free cash and this would reduce his immediate tax free lump sum by £120,000. While he could still take this as a lump sum via his personal pension, as a 45% taxpayer he would only receive £66,000 of this after tax.

Due to his tax status and his requirement for a lump sum, we recommended that he take the maximum tax free lump sum from the Defined Benefit scheme. This meant that he also had to take a pension from the scheme which was subject to 45% tax, but this income would increase in line with inflation and would provide his wife with regular income on his death.

The guaranteed annuity rates under the preserved pension scheme were very generous and even after 45% tax would provide an income greater than the best annuity rate on the open market before tax. This was a relatively small proportion of his total pension provision (circa £200,000), and due to the very good rates on offer, we recommended that he should take the income and not take any lump sum.

His personal pension was in the region of £800,000 and we looked at a number of scenarios such as taking tax free cash with no income, phased retirement and taking the entire fund as a lump sum. While the option of taking the entire fund as a lump sum would generate the largest tax charge, it would also give him the biggest immediate lump sum (just under £510,000). After consideration of the pros and cons of all options, he decided to take the entire fund as a lump sum.

By agreeing to a full review of his pension options, we saved Michael over £190,000 in tax that he would have paid had he proceeded with his initial plans. We also ensured that the remaining fund obtained the best possible income for him, and would provide an income for his wife on his death.



CONCLUSION

We hope that this guide has given you some useful information to consider when appointing a financial adviser, and a flavour of the services that Buckingham Gate Chartered Financial Planners offer.

If you would like to know more, please do not hesitate to contact us to request your initial discovery meeting, or to attend one of our free seminars.

FREE RETIREMENT AND INHERITANCE TAX PLANNING SEMINARS

Buckingham Gate Chartered Financial Planners hold regular seminars in Central London. The seminars are **FREE** to attend, but places are limited.

If you would like to reserve places please email us at **events@buckinghamgate.co.uk** or call us on **020 3478 2160**

THE SEMINARS WILL COVER:

- How will the recent pension changes affect you?
- What level of income can you expect in retirement?
- Ways to reduce the inheritance tax liability on your estate.
- How to update your will to save thousands in inheritance tax.
- How to protect your assets for your loved ones.

Buckingham Gate
Chartered Financial Planners
25A Northumberland Avenue,
London WC2N 5AP

Tel: 0203 478 2160
Email: contact@buckinghamgate.co.uk
Web: www.buckinghamgate.co.uk

GTBT01/21