TEE FINANCIAL PLC

Overview

Spring 2009

What Next?

2008 was a year that few of us, financially speaking, would want to see repeated. The past few months have been a roller coaster ride that has veered dangerously close to the collapse of the UK banking system – a situation that even the slump of 1974 fell short of. And alongside that has been the prospect of rising unemployment and falling corporate earnings.

Not the most promising beginning to the new year, yet in this issue of Overview we aim to take a positive view of the future and examine those market sectors that are likely to weather the worst of the storm and are well placed for recovery.

On the home front, we are delighted to announce that Dominic Sheehan, head of the Investment Management Team has been promoted to Director, and to introduce you to two new members of staff, Toni Chalmers and Kersi Deboo, who join us as Independent Financial Advisers (see back page). We are also pleased to announce that existing employees Helen Pettersson and Laura Plowman have passed their latest examinations and will hopefully qualify this year as an Independent Financial Adviser and an Investment Manager respectively.

We hope you find the content of interest, and some cause for cautious optimism. If you have any queries, or wish to discuss any of the issues in greater depth, please contact your regular adviser.

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Facing an Age Old Problem

Toni Chalmers advises on care fee planning for the elderly

Many people in Britain are aware that they will have to fend for themselves in retirement, including the provision of any long-term care requirements. However, it's usually not until the time care is actually required that the reality of the costs hits home. With an ageing population the number of people with health conditions and dependency will increase significantly over the next 20 years, which in turn will increase the demand for social care, putting pressure on limited resources and funding.

The Wanless Social Care Review in 2006 concluded that people are not aware of the limitations of the care funding system. It says:

"Too many people reach retirement without an accurate understanding of what the state will provide in terms of social care. At a time of crisis, perhaps after a fall or a sudden deterioration in health, an older person can discover for the first time that state funding for social care is available only to those who meet both the means testing and needs criteria."

Yet, finding the best solution for long-term care requirements is complex, with so many things to consider, and often decisions must be made at an emotional time for the person needing care and/or their family.

Defining long-term care

Long-term care is the broad name given to the provision of accommodation, medical support and care for people, including the elderly, who are unable to look after themselves.

Their requirements can be wide-ranging – from simply needing some help at home to full-time living in a residential care home, reliant on others to perform everyday tasks that healthy people take for granted.

The need for long-term care often arises very quickly after a particular event, such as death of a partner or onset of an illness plus, for many people, their physical and mental heath is conditioned by their immediate environment.

There are a number of different ways of providing this care: in the home, sheltered accommodation as well as care homes with or without nursing facilities.

What are the care options?

Care in the home

Most people would naturally prefer to stay in their own homes. This is often possible for those who are not in acute need and only need help with tasks such as

getting in and out of bed, getting dressed, washing, preparing food and general household duties. This type of help can be provided by a number of specialist care agencies. In addition, those who require additional medical attention may need regular visits from a specially trained nurse, usually provided by an agency. Even where the family provides the care it may be advisable to seek professional assistance.

Care homes with and without nursing

The two most popular types of accommodation are care homes and care homes with nursing. Care homes are for those who need help with daily tasks but would also like some companionship. For those who need medical attention, there are care homes which provide nursing care.

The decision to enter a care home is one of the most difficult that the individual and their family have to make and often it is put off, quite understandably, until the last minute. But like most decisions in life, the better the planning, the more likely it is that the right choice will be made.

The role of the local authority

The local authorities have an important role to play in the provision of long-term care. The Community Care Act 1990 (effective from 1 April 1993) means that local authorities are legally obliged to help with care fees for elderly people who do not have sufficient income and/or capital to pay for their own care. The Act also made it easier for elderly people to retain as much independence as they can, whilst remaining in their own home for as long as possible.

The most important sections of the Act cover

- A duty to publish a community care plan
- A duty to assess the needs and requirements of those in need of care
- A duty to provide a level of care to meet the needs resulting from the assessment

A local authority applies capital limits or a "means-test threshold". Local authorities make financial assessments for either domiciliary or residential care through the Charging for Residential Accommodation Guide (CRAG). If a person's assets fall below the means-test threshold or if they drop to this amount, the local authorities are duty-bound to assess the ability to pay for care. They will make an assessment of the needs and look at the financial position to calculate how much can be afforded.

Although somebody may not qualify for the financial assistance immediately, they might qualify in the future. Therefore it is advisable to involve the local authority from the outset as this might make it easier to obtain assistance in the future.

The threshold levels vary slightly from country to country, and are listed below:

Country	Thresholds
England	£13,500 – £22,250
Wales	£19,000 – £22,000
Scotland	£13,000 – £21,500
Northern Ireland	£13,250 – £22,000

Who pays for the care?

The first and most important rule is that those who have more than the "means-tested threshold" in capital will be expected to pay the full cost of their care and will not qualify for any financial assistance from the local authority.

The definition of capital includes savings, investments and property. If somebody deliberately tries to reduce the size of their estate by giving money away, the local authority has far-reaching powers to reclaim any money that it believes has been "spirited away" simply in order to qualify for financial assistance. So beware, it is always best to take legal advice before any assets are given away.

The family home

The value of any residential property will usually be counted as capital, but the value of the family home will be excluded in the following circumstances:

- a spouse, civil or unmarried partner lives in the house
- a relative aged 60 or over lives in the house or where the relative is under the age of 60 but "incapacitated"
- a child under 16 is living in the house and it is their main home

If the house is jointly owned with a friend or relative who is under the age of 60, then normally the local authority will calculate the value of the individual's interest in the property.

The local authority cannot force the family home to be sold, but if it is not and the fees cannot be paid, they will often put a "legal charge" on the property.

If the value of the property is not taken into account because a spouse/partner is still living there, the local authority could still end up getting some of the capital. If, at a later date, the house is sold and the partner buys another property for a lower value, part of any capital left over will be taken into account as savings of the individual receiving care.

The value of the family home is not counted as part of the individual's capital for the first 12 weeks after entering permanent care. After 12 weeks it is included.

Registered nursing care contribution – RNCC

Privately funded residents who are assessed as requiring care in a nursing home can benefit from the registered nursing care contribution (RNCC). In England, prior to 1 October 2007, the level of funding was based on a three-tiered system. However, this has now been replaced with a flat rate of contribution of £103.80 per week.

There are certain circumstances when the full cost of nursing care over and above the flat rate is met, and this is known as "NHS continuing care".

All contributions are paid directly to the care provider and apply to "self funded" residents in nursing homes.

More detailed information regarding the RNCC can be obtained from the Department of Health or by referring to their website at www.doh.gov.uk.

State benefits

Even when a person has more than the means-test threshold in capital they might still qualify for financial assistance. One example of this is the "Attendance Allowance".

Facing an Age Old Problem continued...

Attendance Allowance

This is not means tested and is paid to anyone over the age of 65, regardless of status, who requires help with a number of daily functions such as washing, mobility or eating. This may be as a result of either physical or mental conditions. There are two different levels of benefit– lower rate £44.85 per week and higher rate £67.00 per week– depending on whether a person requires help by day or night, or both.

Pension credit and other state benefits

To qualify for pension credit it is necessary to have a low income and savings of less than the current pension credit threshold. It is similar to income support but applies only to those aged 60 or over. However, pension credit varies according to personal circumstances. This can be a complicated matter and anybody who thinks that they may qualify is recommended to contact the benefits agency. For full details, please refer to www.direct.gov.uk or the Citizens Advice Bureau www.citizensadvice.org.uk.

If you would like to discuss any of the issues raised in this article, please contact Toni Chalmers at Tee Financial plc on **01279 715590**

The Cost of Care: Mrs Hardy – a real case study

Mrs Hardy, aged 89, had been a resident in a care home for a year when I met with her family. Mrs Hardy suffered from short-term memory loss and depression, which meant she was unable to cope at home. Mrs Hardy's family decided that she would be best cared for in a local care home, due to a series of falls at home, causing distress and injuries. Her daughters were able to look after their mother's financial affairs due to an Enduring Power of Attorney already in place.

The family home had already been sold, with the proceeds added to the rest of her savings, currently held with her bank to help fund the care fees. She had total savings of £105,000 from which she received interest. Mrs Hardy received a private pension in addition to her state pension but claimed no state benefits.

Firstly, the family wanted to make sure that their mother could stay in the care home for the rest of her life, and secondly they wanted to make sure that she didn't worry about her money. Mrs Hardy also had concerns: she really wanted to leave some of her money as an inheritance to her family, and she was worried that her care bills would prevent this wish.

Mrs Hardy's daughters, after allowing for her existing income, funded their mother's care fees costs from her capital. Following our initial meeting I suggested the family apply for Attendance Allowance due to the level of care their mother required. Their claim was successful and a few weeks later their mother was awarded the higher rate.

Her daughters had a number of options, but I recommended purchasing an immediate needs annuity, which would pay for the shortfall and increase by the Retail Price Index (RPI) to cover the annual fee increases. For an annuity of £14,025, increasing at RPI per year, the single premium was £59,130.

An immediate needs annuity

An immediate needs annuity pays an enhanced income direct to the care provider for as long as the policyholder is alive. As with all annuities, the capital is invested in exchange for an income. To qualify for an immediate needs annuity, the person should be in or about to enter a care home, or require domiciliary care as a result of a medical condition.

An immediate needs annuity is just as practical for people choosing to stay in their own homes. They are fully portable so should a person originally establish a plan to cover their care at home, and at a later time in the future move into a care home, the plan simply moves with them.

The reasons I gave were:

- The income could have been obtained from Mrs Hardy's savings, but the capital would diminish over time, especially if the level of care their mother required increased along with the costs. The annuity gives her an income, which is guaranteed to be paid for the rest of her life, and she will still retain some capital.
- The family were cautious investors and did not want to take unnecessary investment risks with their mother's capital so the return from the annuity was attractive.
- Even if their mother died soon after taking the annuity there would be capital left in her estate.

Crunch Time

Jo Trueman advises on the best investment options for 2009

No one could have predicted the events that 2008 would bring: the worst year for stocks, non-government credit and emerging markets since the Great Depression, with the public sector cushioning the burden. As we enter 2009 with markets facing a global recession and a traumatised financial sector, the outlook is uncertain.

It will be interesting to see whether decisive central bank and government fiscal action will be enough to kick-start the economy. The central bank's main concern is with inflation undershooting its 2% target, hence the significant cut in interest rates and fiscal stimulus we are currently seeing.

This is not just in the UK. There is a worldwide attempt to prevent a prolonged period of deflation. The main focus of the market will be on how to position itself as a result of these actions.

Either way, it promises to be a year for long-term buying opportunities, with many investors focusing on large cap stocks and good quality corporate bonds. These currently represent good value, as much of the bad news has now been priced in.

Stocks have bounced back sharply since their lows in November, thanks to selective buying. Cash and gilts have provided a safe haven over the last few months. However, with interest rates falling, such meagre returns are currently unattractive. Investors will need to start considering cash alternatives, depending on their income needs.

Secure high dividend paying equities, defensive rather than cyclical, are clearly favoured by the market. In the UK, the first quarter results season will highlight weaker companies and place a premium on stronger entities – those able to pay a growing dividend, with a strong cash flow. Examples of these can be found in the tobacco, pharmaceutical, telecom and oil sectors.

It is anticipated that the worst trough of economic activity will be the last quarter of 2008 and the first quarter of 2009. With hopes of a muted recovery going into 2010, we need to see a sustained growth in corporate cash flows to bolster confidence and set the economy back on the right track.

In this difficult market, it is important to keep a cool head. Good quality stock picking is the key to seizing opportunities in the market through building a diversified portfolio with exposure to different asset classes and geographic spread.

If you would like to review your investment strategy, please contact Dominic Sheehan or Jo Trueman at Tee Financial plc on **01279 658304**

As of 1 March 2009, due to FSA requirements, all telephone calls to our Investment Management Team will be recorded for our mutual benefit.

Getting the Best Redundancy Settlement

With the UK now officially in recession for the first time since the early 1990s, the current economic gloom continues to grab headlines. With reports that the recession may continue for up to two years, the possibility of being offered redundancy is a concern for many, with unemployment reaching 1.92 million between September and November 2008.

If you face redundancy, and have more than two years' continuous employment with your employer you will be entitled to a statutory redundancy payment along with your contractual entitlement. This is calculated by reference to your weekly earnings, age and length of service. However, for the purposes of calculating the statutory redundancy payment, a week's pay is subject to an upper limit (this increases from £330 to £350 with effect from 1 February 2009).

Some employers operate contractual redundancy schemes which will pay above the statutory minimum, but many will offer enhanced terms, on a discretionary basis. Such offers are often subject to the employee signing a "compromise agreement" under which the employee will sign away his or her rights to bring any claims against the employer in return for a compensation payment.

If your employer does not follow correct procedure then you may have grounds for complaint, including for unfair dismissal. You may have been unfairly selected or there may have been a lack of adequate consultation. The rules relating to dismissal procedures are complex, with changes due to come into effect from 6 April 2009.

Compromise agreements are subject to a statutory requirement that the employee must obtain independent legal advice. The employer will normally offer a contribution towards legal fees for taking this advice as part of the severance terms.

Up to £30,000 of an ex-gratia severance package may be paid tax free although the compromise agreement will often require the employee to provide a tax indemnity for any tax or penalties that might be payable. The compromise agreement may also include provisions in relation to confidentiality, non-compete restrictions, non-"bad-mouthing" and references.

In the event that you are offered redundancy Stanley Tee LLP can provide expert guidance on your rights and severance terms offered. We can negotiate on your behalf to ensure that you receive the right deal, and provide advice on whether the correct procedures have been followed by your employer and the terms offered are fair. We can also give advice should your employer impose reduced or changed hours and/or conditions or in the event of your employer going into administration.

Call Robert Whitaker at Stanley Tee LLP
on **01279 710647**

Tax Penalty Looms for Excess Pension Funds

Pension holders with funds in excess of their lifetime allowance limit face a tax penalty of 55% on the extra – unless they register for protection by 5 April 2009.

Under pension simplification rules introduced by the Government in 2006, there is a maximum amount of pension savings that can benefit from tax relief. That figure was £1.5m for the tax year 2006/07 and is £1.65m for the current 2008/09 tax year.

To protect the savings of those who already had funds in excess of the imposed lifetime allowance, the Government has introduced two different types of protection: primary protection and enhanced protection.

Primary protection

Primary protection is a transitional arrangement for members of approved pension arrangements whose total pension benefits as at 5 April 2006 exceeded the lifetime allowance for the 2006/07 tax year of £1.5m.

Registering pension benefits for primary protection by 5 April 2009 may prevent a lifetime allowance tax charge of up to 55% applying to any benefits which exceed the lifetime allowance.

The level of protection increases in line with the lifetime allowance from the 2006/07 tax year to the year in which benefits are taken.

Further pension contributions can be made under primary protection up to your personal lifetime allowance limit.

Enhanced protection

Enhanced protection is a transitional arrangement for members of approved pension arrangements whose total pension benefits as at 5 April 2006 either exceeded the lifetime allowance for the 2006/07 tax year of £1.5m or whose benefits are likely to exceed the lifetime allowance applicable when they retire.

Registering pension benefits for enhanced protection by 5 April 2009 will prevent a lifetime allowance charge of up to 55% applying to any benefits which exceed the lifetime allowance.

The key stipulation in registering for enhanced protection is that no further pension savings can be made after 5 April 2006.

Lump sum protection

If on 5 April 2006 your pension commencement lump sum entitlement was greater than 25% of the pension fund value, registering for primary and/or enhanced protection can protect your right to a higher lump sum payment, otherwise the payment could be restricted to 25% of the fund value.

How should I register for protection?

If your total pension benefits exceeded or were near to £1.5m on 5 April 2006 then registering for primary and/or enhanced protection, through Her Majesty's Revenue and Customs (HMRC) may prevent you having to pay additional taxation when you retire.

We recommend that you contact us as early as possible if you think this could affect you. If you are to rely on enhanced protection, contributions must have stopped after 5 April 2006 other than for limited levels of pension life cover. If you are to register for protection, this must be done by 5 April 2009.

Call Kersi Deboo at Tee Financial plc on **01279 713390**

Overview

Spring 2009

Equitable Life, Inequitable Payouts

After years of denial, the Treasury has finally bowed to the inevitable and has confirmed that there will be some ex-gratia payments made to the long-suffering Equitable Life policyholders.

On the face of it, this is good news. The Government has actually accepted ten counts of maladministration, and has also accepted that certain statements made by the Financial Services Authority in 2001 were misleading.

The good news, however, ends there. Sir John Chadwick has been brought in to advise the Government on how best to compensate some policyholders, having particular regard to those who have been hardest hit by the fallout.

This might be taken to mean that clients who have lost substantial amounts but have substantial other assets may not benefit, whilst those that have lost smaller amounts but have very few other assets might be compensated – a sort of means testing.

There is also the issue of the many policyholders who have died whilst the Government has been dragging its feet.

In fairness, the Government and the Financial Services Authority are not solely to blame. Much responsibility for the fiasco lies with the former management of Equitable Life. Nevertheless, it is unlikely that these proposals are going to satisfy the various action groups, and the saga is set to drag on for yet more years.

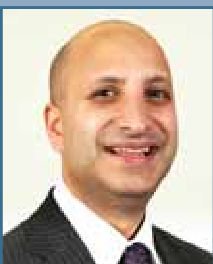
New Year, New Faces

At Tee Financial we're facing 2009 with a brave face – in fact two new faces! Toni Chalmers and Kersi Deboo, who both join us as Independent Financial Advisers, strengthening and bringing new professional specialities to our in-house team of advisers.

Toni Chalmers

Toni is an Independent Financial Adviser with over 20 years' experience in the financial services industry. She holds a Diploma in Financial Planning and specialises in investments, inheritance tax and estate planning, equity release and care fees planning.

She is also a founder member and spokeswoman for Symponia.



Kersi Deboo

Kersi is an Independent Financial Adviser with 14 years' experience in the financial services industry. He graduated with a BA (Hons) from Bristol University and holds a Diploma in Financial Planning.

Kersi provides financial planning advice on a wide range of areas, and specialises in retirement, investment and protection planning.

Tee Financial plc

Rutland House, 47 Dane Street
Bishop's Stortford
Hertfordshire CM23 3BT
Tel: 01279 658304
Fax: 01279 757672

e-mail: helenp@stanleytee.co.uk
www.teefinancial.com

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Stanley Tee LLP

High Street, Bishop's Stortford
Hertfordshire CM23 2LU
Tel: 01279 755200
Fax: 01279 758400

42 High Street, Great Dunmow
Essex CM6 1AH
Tel: 01371 872166
Fax: 01371 875747

Star House, 38 Rayne Road
Braintree, Essex CM7 2QP
Tel: 01376 552277
Fax: 01376 551919

Tee Lorimers

Devonshire House,
89 Regent Street, Cambridge
Cambridgeshire CB2 1AW
Tel: 01223 311141
Fax: 01223 460749

Tee Stonehams

68 High Street, Saffron Walden
Essex CB10 1AD
Tel: 01799 527299
Fax: 01799 525249

e-mail: law@stanleytee.co.uk
www.stanleytee.co.uk

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