

# Fidelity Retirement Income Fund and Trusts

## RETIREMENT SOLUTIONS FROM FIDELITY

With the Inheritance Tax (IHT) threshold for individuals currently standing at £312,000 (in tax year 2008/09), more and more of today's retirees are facing a potential IHT problem. Whilst, married couples or those in a civil partnership effectively have two nil-rate bands they are not immune where their total combined assets exceed this combined threshold. With their families and beneficiaries facing a potential IHT bill of 40% on everything in excess of the nil rate band when they eventually pass on their assets, it is obviously something that most will wish to minimise. They don't wish to see the taxman get hold of a portion of their hard earned wealth and leave their beneficiaries facing a large tax bill. Accordingly, with many now seeking advice on how to minimize any potential liability to IHT, IHT planning is a big and growing area for Advisers.

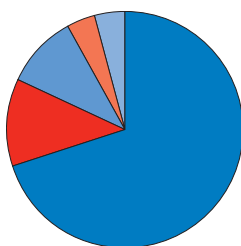
The appropriate solution for clients – depending on individual circumstances - could be to place some or all of their assets into some form of trust, which would then pay them an income (if required) to see them through their remaining lifetime. With the Fidelity Retirement Income Fund being specifically designed for retirees taking an income, **holding the fund within a trust arrangement could be a highly attractive option.** We examine some of the possibilities overleaf.

### THE FIDELITY RETIREMENT INCOME FUND

Fidelity's Retirement Income Fund is specifically designed for those drawing an income in retirement. The fund provides investors with a diversified portfolio - including equities, property securities, cash and commodity exposure as well as bonds - which is managed to provide a sustainable lifetime income. Unlike many traditional retirement income options, the fund is also designed to offer the potential for capital to grow over time, through the inclusion of growth oriented assets to help combat the effects of inflation.

The mix of underlying investments has been carefully set following extensive analysis and modelling by Fidelity's investment experts. Using our expertise and experience of investment returns and characteristics, we have looked at thousands of different scenarios to arrive at the asset allocation below, which we believe offers a compelling mix of diversification and growth potential to ensure assets last a lifetime.

The fund is managed by Richard Skelt and the Investment Strategies Group, which comprises some of Fidelity's most senior investment professionals. In designing the new Retirement Income Fund, we have brought together our long-term investment expertise, developed over 40 years, with sophisticated analytical techniques to ensure the asset mix is suitable for someone drawing an income in retirement.



Bonds	70%
UK Equities	12%
World Equities	10%
Real Estate	4%
Commodity exposure*	4%

For illustrative purposes only. Actual asset allocation may vary.

#### Key points

- A **highly diversified portfolio** designed specifically for someone taking an income in retirement
- Designed and managed to provide a **sustainable income for life**
- Provides **exposure to growth assets** in order to provide the potential for the modest capital growth over time
- A fund that draws upon all the **expertise of Fidelity's highly experienced Investment Strategies Group.**

#### Availability

- Standalone OEIC as well as an ISA
- Onshore life fund (FundsNetwork Fidelity Retirement Income Life Fund)
- As a mutual fund within an International Bond account through FundsNetwork.

\*Fidelity Retirement Funds will gain exposure to commodities by purchasing futures contracts on a commodities index. These versatile instruments allow us to gain exposure to a range of individual commodities in much the same way as a mutual fund would provide exposure to a variety of individual company stocks.



## DISCOUNTED GIFT TRUSTS

Discounted Gift Trusts are designed for those individuals or couples who want to plan for IHT, whilst retaining an 'income' for life. Investment must be made via an onshore or offshore bond. Either a Bare Trust or a Discretionary Trust may be used to achieve the IHT saving and with either trust the settlor(s) retains the right to an income for life with the capital being held on trust for the chosen beneficiaries.

Within these trusts, the 'income' rate is set at outset and is based on the original investment. For example, if £200,000 were placed into trust and a 4% income rate was specified, £8,000 would be payable each year for life (assuming the trust's assets were not exhausted). There would be no ability to increase or decrease the withdrawal rate once it is set up within the trust and the settlor(s) cannot otherwise benefit from the trust.

### CASE STUDY



**John is divorced with two children and has just retired and has done no previous IHT planning**

John has just retired aged 63 following a successful career as a Design Consultant. His money purchase pension scheme is valued at £600,000 and he is taking the 25% tax-free lump sum and purchasing an increasing annuity with the remainder. Whilst the annuity will account for most of his income needs in retirement, he wants to supplement this with additional income generated from the remainder of his tax-free lump sum (after paying off the remainder of his mortgage). However, John is very mindful that his total assets built up over the course of his career are valued well over the IHT threshold and that his two children, who he intends to leave all his assets to, potentially face a reduced inheritance following his death. He is therefore keen to move assets out of his estate whilst still retaining an income from them.

### SOLUTION

John has been advised to invest the remaining £125,000 of his lump sum into the Fidelity Retirement Fund through FundsNetwork™ (within an International Bond account) and within the FundsNetwork Discretionary Discounted Gift Trust. He has selected a withdrawal rate of 4% pa which will provide an additional income of £5,000 per year for the rest of his life (assuming that the investment is not exhausted).

If John survives seven years, he will have successfully removed the £125,000 investment from his estate (and even if he dies within seven years there may still be an IHT saving by virtue of the 'discounted' gift value that may apply for IHT purposes). John likes the idea of investing in a highly diversified fund that is especially designed for someone taking an income in retirement. Additionally, as he is only withdrawing a flat 4% pa from the trust, he knows that, given the Retirement Income Fund invests in growth assets as well as income-producing assets, there is the potential for his original investment to grow modestly for the benefit of his two children, which is important to him.

## LOAN TRUSTS

In this scenario, an individual (the settlor) loans a sum of money to the trust investment but they retain the right to take back the original capital. Any returns from the investment are for the benefit of the beneficiaries and cannot be reclaimed by the settlor. These returns are exempt from IHT although the original investment never is.

The settlor is able to take back the original loan in a single sum, in irregular lump sums or as often as they decide to do. There is no requirement to fix a specific regular income amount as demands for loan repayments can be made at will. Investment can be made into mutual funds although as this can bring added administration and taxation issues, investment might normally be expected to be made via an onshore or offshore bond. The Loan Trust is available as either a Bare or Discretionary Trust.

### CASE STUDY



**Eleanor is a 71 year old widow with an inheritance of £200,000**

Eleanor is a 71 year old widow who received an inheritance of £200,000 in 2004 but to date has done no IHT planning. Even though Eleanor is able to use her deceased Husband's nil rate band in addition to her own, this inheritance has pushed her total assets well over her IHT threshold, a tax that she particularly dislikes. Having had a few years to work out her requirements she now wants to undertake IHT planning. She wants to pass on as much of her assets to her only daughter when she dies but she doesn't want to lose access to the inheritance. Given her age, she does not want to take unnecessary risks with her capital as it needs to provide for the rest of her life, which she thinks could be for another 20 years.

### SOLUTION

Eleanor is advised to place the £200,000 in the Fidelity Retirement Income Fund through FundsNetwork (within an International Bond account) and within the FundsNetwork Discretionary Loan Trust. She intends to request repayments of £8,000 pa until the loan is repaid. She has been advised to review this figure every few years to see whether she should increase or decrease the amount of the repayments. She is happy in the knowledge that the Fidelity Retirement Income Fund is a relatively cautious product and that any returns generated from her £200,000 will be free of any IHT liability.

If Eleanor were to die after 20 years and had continued to take back £8,000 pa, the outstanding loan at that time would be £40,000. Even if the Fidelity Retirement Income Fund only produced an annualised return after charges equivalent to the annual withdrawal rate (4%), the trust fund would still be worth £200,000. Of this, £160,000 would be IHT free. As the Retirement Income Fund aims to provide some capital growth over the long-term (by maintaining some exposure to growth assets) in addition to a suggested 4% income withdrawal, the trust fund could well be worth in excess of £200,000 after 20 years.

*For more information on the taxation treatment of investments within the FundsNetwork Discount Gift Trusts and Loan Trusts, as well as more information on why they may be useful for IHT planning purposes, please refer to the relevant FundsNetwork Trust guide. These can be downloaded from the FundsNetwork web site at [www.fundsnetwork.co.uk/adviser](http://www.fundsnetwork.co.uk/adviser)*

## FUNDSNETWORK: ONSHORE AND OFFSHORE BOND ACCOUNTS

### Investment Bond (onshore)

When tax-planning considerations and investment-planning considerations point to the use of a Single Premium Investment Bond, you will want to ensure that tax-efficiency doesn't come at the expense of investment flexibility. That's where the Investment Bond from FundsNetwork really scores:

- 210 investment choices
- Free switching options
- Commission flexibility
- Fair pricing & no hidden spreads

### International Bond (offshore)

The FundsNetwork International Bond is an open-architecture offshore portfolio bond. It features clear pricing, plus a wide choice of funds and other investment options. Provided by Standard Life International, it offers:

- Low and transparent charges
- Access to over 1,100 funds from over 60 providers
- Access to Deposit Accounts, Discretionary Fund Management and Whole of Market Funds
- Commission flexibility for Advisers – suitable also for fee-based practices

### Both the onshore and offshore bonds provide IHT planning opportunities in conjunction with the FundsNetwork range of trusts.

FundsNetwork cannot give advice regarding the legal or tax effects of the FundsNetwork trusts, and will not accept responsibility for any loss occurring from their use. IFAs and their clients are recommended to seek independent legal advice to ensure the trust meets their needs.

### THE FUNDSNETWORK TRUST RANGE

The FundsNetwork™ range of multi-asset trusts can wrap around eligible products on the FundsNetwork platform, as well as off-platform assets. They can hold a combination of income-producing and non-income-producing assets, including:

- Unit trusts
- Open ended investment companies (OEICs)
- Investment Bond
- International Bond
- SICAVs
- Other Fidelity Unit trusts, OEICs and SICAVs that are held off-platform.

#### The range of trusts available are:

- FundsNetwork Bare Gift Trust
- FundsNetwork Discretionary Gift Trust
- FundsNetwork Bare Loan Trust
- FundsNetwork Discretionary Loan Trust
- FundsNetwork Bare Discounted Gift Trust
- FundsNetwork Discretionary Discounted Gift Trust
- FundsNetwork Excluded Property Trust
- FundsNetwork SIPP By-Pass Trust (coming Summer 2008)



Printed on paper made from 50% recovered fibre and 50% virgin wood fibre. Manufactured at a mill that has been awarded the ISO14001 certificate for environmental management. Pulp bleached using an elemental chlorine free (ECF) process.



For more information on FundsNetwork's range of trusts, visit [www.fundsnetwork.co.uk/adviser](http://www.fundsnetwork.co.uk/adviser). For more information on the Fidelity Retirement Income Fund and to order client-facing sales materials, visit [www.fidelity.co.uk/retirementfunds](http://www.fidelity.co.uk/retirementfunds) or call **0800 358 7499**.

This item is for Investment Professionals only, and should not be relied upon by private investors. The value of investments and the income from them can go down as well as up and investors may not get back the amount invested. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of an investment. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. If regular withdrawals are made from an investment, this may reduce the capital over time if the fund's growth does not compensate for the withdrawals. The Fidelity ISA is offered and managed by Financial Administration Services Limited. The Authorised Corporate Director of Fidelity Investment Funds and Fidelity Investment Funds II OEIC, and the Manager of Fidelity Unit Trusts is Fidelity Investment Services Limited. The FundsNetwork service is offered and managed by Financial Administration Services Limited. The FundsNetwork SIPP and FundsNetwork Investment Bond are both provided and administered by Standard Life Assurance Limited. Financial Administration Services Limited (a Fidelity group company) is registered in England and Wales (no 1629709) Registered office Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent, TN11 9DZ. Standard Life Assurance Limited is registered in Scotland (SC286833) Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH. Both companies are authorised and regulated by the Financial Services Authority. The FundsNetwork International Bond is provided by Standard Life International Limited. Standard Life International Limited is registered in Ireland (408507) 90 St Stephens Green, Dublin 2. Standard Life International Limited is authorised and regulated by the Financial Regulator in Ireland and regulated by the Financial Services Authority to conduct UK business. The Full Prospectus and Simplified Prospectus for this fund are available from Fidelity on request by calling 0800 41 41 81. Issued by Fidelity Investments International/ Financial Administration Services Limited, authorised and regulated in the UK by the Financial Services Authority. Calls may be recorded and monitored to help improve customer service.

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