Newsletter Summer 2011

Welcome to the latest edition of our new regular financial newsletter. We hope you find it of interest. If you know someone else who would also appreciate a copy, please just send us their email and we'll add them to the mailing list.

In this edition:

1. *Depositor protection*
2. *33,000 women set to lose at least £10,000 in state pension*
3. *Less tax if you leave money to charities*

BUSINESS SECTION

4. *National Employment Savings Trust (NEST): part two – the "jobholder"*

"Thankfully, there is a scheme set up by the government which returns your money if a financial company goes bust"

Depositor protection

The last thing you want with your hard-earned money is for the bank or building society where you invest it to go bust and lose it all.

Thankfully, there is a scheme set up by the government (details later) which returns your money if a financial company goes bust – but this has an upper limit in some cases.

This applied recently to a small organisation called Southsea Mortgage and Investment Company, which was effectively wound up by the Financial Services Authority.

Southsea, which had deposits of just £7.4m, marked the first banking failure since the demise of the Dunfermline Building Society in March 2009.

The investor compensation payments system kicked in immediately, with the 'vast majority' of payments made on the day after the bank was wound-up.

However, for bank deposits the maximum compensation is limited to a maximum of £85,000 – the new level set at the end of last year.

According to press reports, some depositors had invested more than this amount and the Chancellor took a deliberate decision not to extend the open-ended protection that had applied to the likes of Dunfermline, Icesave and Bradford & Bingley.

This is hardly surprising given the cost of the unlimited protection that was given to Northern Rock depositors just over a year ago (although that bank became state owned).

At a time when banks and their financial stability are still front page news, this is a reminder that large depositors cannot assume that the government will always bail them out.

So it is important for you to know what compensation will be available, if the company that holds your investments goes bust. And these limits are per person, so if you have a joint account the amounts are doubled.

The scheme is the Financial Services Compensation Scheme and there website is here: http://www.fscs.org.uk/

Compensation Limits

The maximum levels of compensation are:

- **Deposits:** 100% of the first £85,000 per person per firm
- **Investments:** 100% of the first £50,000 per person per firm
- **Insurance (including investment bonds):** 90% of the claim with no upper limit

As ever, not keeping all your money in one place is a wise precaution.

33,000 women set to lose at least £10,000 in state pension

If you are a woman born between 6 March 1954 and 5 April 1954, the chances are that you are feeling very aggrieved about the government's changes to the state pension scheme.

It was bad enough when the government changed your retirement age to 64, but it then announced the retirement age for all, men and women, was moving to age 66 by 2020.

"their retirement age went from 60 to 66 just when they were on the cusp of retiring!"

Of course, that was not happening overnight and there were transitional arrangements to soften the blow. Depending on your date of birth, the retirement date would be up to age 66.

But one group of women were in the worst possible situation, where their retirement age went from 60 to 66 just when they were on the cusp of retiring! And that group of 33,000 have the dates of birth mentioned earlier.

If they were expecting the full state pension entitlement (some would have paid the reduced-rate married woman's stamp), that is a loss of around £10,000!

And perhaps even more galling is the fact that many will now have to work for an additional two years before retiring.

The reason that this is in the news now is that the provisions are contained in the Pensions Bill, which got nodded through on its second reading in parliament at the end of June.

Iain Duncan Smith, the Work and Pensions Secretary, has said that 'transitional arrangements' will be made to help those most affected and that he would he would 'happily look at transitional arrangements.' We will have to wait to see what that means.

"..cutting this tax rate to 36% for estates where people had left a significant amount to charity.."

Less tax if you leave money to charities

When you die, HM Revenue & Customs check to see if any inheritance tax is payable on the assets you have left behind (your "estate").

No inheritance tax is payable if you leave your estate to your spouse, but if you are single or your spouse has died, you could pay tax at 40% if you are reasonably wealthy.

The government announced in the Budget in March that it would be cutting this tax rate to 36% for estates where people had left a significant amount to charity. We now have the details of how this scheme will operate.

For deaths occurring in the next tax year, starting on 6 April 2012, if your estate includes a legacy to charities of at least 10% of the net amount, a rate of 36% will be levied as opposed to the standard rate of 40%.

Inheritance tax is a complex tax and we don't propose to go into the detail of it here –please ask if you need to know more – but to determine if your estate will qualify, you have to compare:

- the total value of all charitable legacies, and
- the value of your net estate for IHT purposes

Here is an example to illustrate the effect.

Mrs Green's estate totals £850,000 and she is leaving £20,000 to the RSPCA in her will.

The inheritance tax payable if she died today and if she died after next April, is as follows:

	Now	From April 2012
Estate	£850,000	£850,000
Less nil-rate allowance	-£650,000	-£650,000
Net estate for 10% test purposes		£200,000
Less charitable legacy	- £20,000	- £20,000
Taxable estate	-£180,000	-£180,000
Tax payable	**@ 40% = £72,000**	**@ 36% = £64,800**

So it can be seen that not only does the charity benefit from the estate, Mrs Green's family also benefit because £7,200 less inheritance tax is payable.

Of course, there is still a large amount of tax to pay and Mrs Green could have done something about this if she had taken action in her earlier years.

Inheritance tax has been called a 'voluntary tax' but this is only the case if you take action early enough.

BUSINESS SECTION

National Employment Savings Trust (NEST): part two – the "jobholder"

Continuing our series on this new initiative from October 2012, we look at who will actually be included in the scheme.

An employer is going to be required to automatically enrol "eligible jobholders" in a qualifying pension scheme, so let us look at who those people will be.

"An employer is going to be required to automatically enrol "eligible jobholders" in a qualifying pension scheme"

Jobholder

A "jobholder" is defined as an employee or worker who ordinarily works in Great Britain or Northern Ireland, who is aged between 16 and 75 and who has "qualifying earnings" in the "relevant pay period".

Where a jobholder has more than one employer, the employer's obligations apply separately in relation to each employment.

It should be noted that agency workers are considered as jobholders and that their relevant employer will be either their agent or the principal responsible for paying the worker.

If neither is specifically responsible, whichever one is actually paying the worker.

A director is not regarded as a 'worker' in the definition of jobholder unless they are employed by a company under a contract of employment and there is at least one other employee in the company.

Someone who is self-employed for tax purposes may be classed as a "worker", and so potentially a "jobholder", if they are working under a personal services contract.

These new provisions, however, apply to members of the armed forces, reservists or any person employed or engaged in any capacity on board a ship.

"Qualifying Earnings"

"Qualifying Earnings" are the earnings between the lower and upper thresholds in a "pay reference period" of 12 months.

The current recommendation is that the lower threshold should be aligned with the lower national insurance threshold (£7,225 for 2011/12) but that the upper limit should be independent of the national insurance bands.

The suggestion is that it should be £38,185 (when it was suggested in 2010/11 terms) but the Secretary of State for Work and Pensions (Iain Duncan Smith, at present) must review the upper and lower earnings levels annually.

But it is still unknown what level the Secretary of State will set when automatic enrolment is implemented in October 2012.

"Relevant pay period"

There are two "pay reference periods" used to calculate whether an individual has or is likely to have "qualifying earnings":

1. For assessment of eligibility for enrolment and calculation of contributions: In this case a "pay reference period" will be the period over which the

"Automatic enrolment in a pension scheme is triggered.."

jobholder receives his regular wage or a period of one week.

Special provisions apply to people who earn over the limit in isolated pay periods (for example, part-timers). Believe it or not, these people are called "accidental jobholders'". Automatic enrolment in a pension scheme is triggered when a jobholder earns over the weekly, four-weekly or monthly threshold in their normal pay cycle.

Employers will be required to make a factual decision, based on actual additional earnings plus an assumption of continuing contracted earnings, to identify the point when a worker without annual qualifying earnings acquires jobholder status.

2. For assessment of whether the scheme meets the 'appropriate standard' required: A "pay reference period" of 12 months will be set to allow employers to identify if their scheme is a qualifying scheme and allow them to assess whether pension contributions meet the minimum level requirements.

   This means that they will not be forced to contribute to NEST and will be able to continue to use their own definition of pensionable pay.

Earnings/pay for both definitions includes:

- wages/salary
- commissions
- bonuses/overtime
- statutory sick pay
- statutory maternity pay
- ordinary statutory paternity pay or additional statutory paternity pay
- statutory adoption pay

Regulations may also indicate other sums that may be considered as part of earnings.

Next time, we will look at enrolment requirements and what your obligations under NEST would be.

More information

The Pensions Regulator has published a number of leaflets giving detailed guidance on all aspects of NEST.

If you want more information on jobholders, it is available on the internet if you go to this address: http://www.thepensionsregulator.gov.uk/docs/Pensions-reform-employer-duties-defining-workforce.pdf

The information regarding taxation is based on our understanding of current legislation, which may be altered and depends on the individual financial circumstances of the investor. Past performance is not a guide for the future. The value of units can fall as well as rise. If an investment is surrendered in the early years, the surrender value may be less than the original investment. Currency fluctuations can also affect performance. If you no longer wish to receive this newsletter, please simply reply to the e-mail with "unsubscribe" in the subject line.

"You know it makes sense"