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NEWSLETTER
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Saving for Retirement

We know that the Government is keen to get more people saving for retirement and a recent survey showed that only around half of the population is adequately preparing for a reasonable retirement and one in five people are saving nothing at all.

As a step towards a solution, next year will see the introduction of the National Employment Savings Trust (NEST). NEST is a low cost pension scheme that any employer can use to meet the new legal duties, which will be introduced from 2012. Between 2012 and 2016, all eligible workers will be automatically enrolled into a workplace pension and be required to contribute 4% of their salary.

Many of us are aware that we are not saving enough for retirement, but can be put off by the complexities of pension plans and the inflexibility that often comes with tying money up within a pension scheme. It may be that we simply cannot afford to put extra money away each month with the knowledge we cannot get it back until we retire. It is important to consider a carefully thought out, but balanced approach to pensions – yes, we need to save more, but does the money always need to be directed at a 'pension' plan? Of course, the biggest draw is that they offer tax relief upfront, but don't forget that any income taken at retirement is taxable and the way in which the benefits can be taken is subject to prevailing legislation, which has a habit of changing.

It is important to save for retirement, but we mustn't overlook other tax advantaged savings vehicles, such as ISAs, as part of the mix. Admittedly, there is no tax relief upfront, but the fund grows in a tax-efficient way and can produce a tax free income when you decide to take it - you also have complete flexibility to take the whole fund as a cash lump sum.

At the other end of the scale, for those fortunate enough to have pension savings that may hit the lifetime allowance of £1.8 million, don't forget that you need to apply for Fixed Protection by the 5th April 2012 to avoid your lifetime allowance reducing to £1.5 million when the legislation changes. As mentioned in our previous articles on the subject, it must be remembered that Fixed Protection will be lost if you accrue additional pension in the future. This could be a big issue for those in employment who may be caught by the NEST 'auto-enrolment'. Be sure to watch out for this and 'opt out' before you accrue any benefits, otherwise you could inadvertently loose your valuable Fixed Protection.

Compromise on State Pension Changes?

Steve Webb told delegates at the Liberal Democrat conference that he would compromise on the proposed changes to equalise the State Pension age for men and women.

Campaigners say that proposals for a universal State Pension age of 66 by 2020, six years earlier than was originally planned, mean that many women will face a sharp rise in their retirement age which they feel is grossly unfair. On 6th April 2010, the State Pension age for women started to increase gradually from 60 to 65, to correspond with the pension age for men. The Government then announced new proposals for increasing State Pension age and, if they become law, the State Pension age will change for:

- Women born between 6th April 1953 and 5th April 1960
- Men born between 6th December 1953 and 5th April 1960

These proposals would increase women's State Pension age to 65 more quickly between April 2016 and November 2018 to be in line with men's. Between December 2018 and April 2020, men's and women's State Pension ages will increase from 65 to 66 and the Government is also considering the timetable for future increases from 66 to 68.

The proposed changes are mainly as a result of the UK's ageing population, which has considerable consequences for public services, benefits and the State Pension in particular. The ageing population in the UK mirrors that of many other European countries. It is partly a consequence of the age structure of the population living today, particularly the ageing of the large number of 'baby boomers' and increased longevity. Currently, there are 10 million people in the UK over 65 years of age. The most recent projections are for 5.5 million more elderly people in 20 years' time and the number will have nearly doubled to approximately 19 million by 2050.

A man born in the UK in 1981 had a life expectancy at birth of 84 years. For a baby boy born today, the figure is 89 years and by 2030, it is projected to be 91. The trend for women is similar, a girl born in 2030, could expect to live to 95. Just over 100 years ago when the State Pension began, there were 10 workers for every pensioner, whereas now there are only four and we can see where the trend is going.

Earlier this year, the Government delayed the debate on the Pensions Bill following protests from hundreds of women over these unfair proposals, which would see them having to wait up to two more years to collect their State Pensions. In total, more than 2.6 milliion women and 2.3 million men are affected by proposals in the Bill to raise the state pension age to 66 by 2020. This has meant that the timetable to raise women's pension age from 60 to 65 is also being accelerated. Women currently in their late 50s are particularly badly hit by these changes, with up to 330,000 facing delays of up to two years before they can start receiving their State Pension.

Ros Altmann, the director general of Saga, said "Many people just don't seem to understand why this is so unfair. Many men do not realise that these women's lives have not given them a chance to build up private pensions and that they had already accepted an increase in their State Pension age of three, four and five years. Having accepted that, it is not right to impose a second rise on them without giving them sufficient time to prepare".

More worryingly, however, of the women affected by these changes, around 40 percent do not have any additional private pension provision, therefore, they are solely reliant on their State Pension for their retirement income. More than a third of these are already out of the labour force and are more likely to find it difficult to get to work to help fund any delay in the start date of their State Pension. With all of these concerns, what are the compromises likely to be?

Steve Webb, the Pensions Minister, said at the conference that "we'll soften the blow for women", but what will this mean?

Details for the transitional arrangements are still being worked out and could mean that the affected women may be able to claim pension credit for up to two years before retirement. Another option being considered by David Cameron is that those women most affected will have the wait to collect their pension cut to a year.

There are no clear cut decisions as yet and Mr Webb went on to say that "although we stand by our plans to equalise men and women more quickly and to move to age 66 more quickly, I can assure you that we will do all that we can to ease that transition for the particular group of women most affected by the change." He said, "there are a range of things that you can do, whether it's about dates, or about other bits of the system, that would ease the financial pressure for those most affected. I won't pre-empt what we'll say to Parliament is some weeks' time, but the crucial thing for us is fairness".

However, for months we have heard these vague hints from Ministers that the transition will be made easier for the women worst hit by the new plans. With the final reading of the Pensions Bill on the 18th October, time is running out for the Government. With less than a month to act before the plans become law, will they have enough time to make any changes to rectify this unfairness?

MARKET REPORT

GLOBAL REVIEW

Volatility in financial markets reached extreme levels in August as bad news flow converged to dominate sentiment. Despite the best efforts of EU leaders, the ongoing European sovereign debt crisis took another downward turn, casting doubt over the future of the eurozone. The political impasse in the US over the raising of the Government debt ceiling and subsequent downgrade of US credit by Standard & Poor's left investors questioning the safety of Government bonds. Negative revisions of economic growth across the developed world allowed speculation of a return to recession.

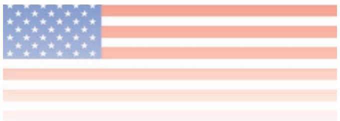
Investors, already challenged in 2011 by the Japanese tsunami, unrest in North Africa and the Middle East and high energy prices, took the opportunity to de-risk, indiscriminately selling down any and all risk assets. As a consequence, only core Government debt posted positive returns in August, despite the questions of solvency, with equity markets suffering falls of close to 15% before partially recovering.

UK

From its peak in early July, the FTSE 100 had fallen almost 17% by the second week of August to leave the index of the UK's largest companies down 13% year-to-date. The Mining sector, on fears of slowing demand due to weaker global growth, and the Banking sector, on concerns of tighter regulation and contagion from the eurozone debt crisis, were the major detractors. Confirmation that GDP in the UK rose by only 0.2% in the second quarter has also served to dampen investor interest.

Unsurprisingly the Bank of England (BOE) responded to the weaker economic data and market turmoil by holding interest rates at 0.5% in a unanimous vote. This was the first unanimous decision since May 2010 and signalled a shift in policy by those more hawkish members of the Monetary Policy Committee. This stance looks set for the foreseeable future as Mervyn King, Governor of the BoE, mirrored the views of US Federal Reserve Chairman, Ben Bernanke, in his assessment that the pace of recovery will fall a long way short of early 2011 predictions.

US



In an unprecedented move, Federal Reserve Chairman Ben Bernanke gave a long-term outlook on interest rates, confirming that the cost of borrowing would be kept "exceptionally low" for another two years if required. Bernanke cited additional downside risks to the economy and the anticipation that currently high inflation would settle in the coming months, a view again shared by the Bank of England. There was further bad news for financial markets as the Chairman later postponed the possibility of further quantitative easing measures in his speech at the Federal Reserve's annual retreat.

President Obama's response was the announcement of a $447 billion plan of tax cuts and infrastructure projects designed to reduce the 9.1% unemployment rate. The plan has yet to be ratified by Government, however, and the President will be hoping for greater cooperation than was shown by the Republicans over the raising of the US debt ceiling. The debacle over the debt ceiling threatened the short-term solvency of the world's largest debtor nation with the situation only rescued by an 11th hour deal that forestalled all talk of a default.

EUROPE

It is the European debt crisis, however, that poses the greatest threat to market confidence. With Prime Minister Papandreou seemingly unable to convince the Greek people of the necessity for tougher austerity measures, opinion is growing that Greece will default on its debt. Many believe that Greece should be allowed to go into insolvency and leave the euro rather than jeopardize the future of the single currency, but this will have serious knock-on effects for the eurozone, most notably holders of Greek debt.

After speculation that France, as the most indebted of the eurozone's 'AAA' rated nations, would suffer a downgrade in August, ratings agency Moody's instead downgraded the credit of several major French banks due to their exposure to Greek debt. With Italy and Spain also under the spotlight, EU leaders have been forced to announce a range of measures in order to restore confidence. Promises to cap national debts, direct intervention by the European Central Bank to buy the debt of those beleaguered nations and, most recently, the issuing of eurobonds that allow countries within the eurozone to borrow money collectively have served to calm the financial markets.

JAPAN

Financial markets in Japan have also been subdued by global developments, despite an impressive recovery following the earthquake in March. Unusually, full year company earnings are already being revised upward following overly pessimistic forecasts with many companies also hiking dividends and buying back shares in a show of confidence. This, however, failed to safeguard the position of Prime Minister Naoto Kan who resigned in August, having come under attack for failing to show leadership in the aftermath of the earthquake and ensuing nuclear crisis. Japan's Finance Minister Yoshihiko Noda has succeeded Mr Kan to become the country's sixth Prime Minister in five years.

Mr Kan's resignation also prompted a further downgrade of Japan's sovereign debt by Moody's who believe the frequent changes in administrations have prevented the implementation of long-term fiscal strategies. One of Mr Noda's last actions as Finance Minister was to oversee the sale of ¥10 trillion on the international markets in an attempt to drive down its value for the benefit of exports. The currency has been appreciating rapidly on its status as a safe haven from the turmoil in the US and Europe.

ASIA

Having previously been criticised for its exchange rate policy, the People's Bank of China has recently set at an all-time high for the yuan versus the dollar. This move has been seen as a measure to help fight high inflation whilst, at the same time, raising the yuan's global status. The Bank declared an end to its cycle of interest rate hikes in the face of the current global turmoil, but remains concerned by rising prices that it blames on the cost of commodities.

With inflation close to double digits, the Reserve Bank of India is under pressure to raise interest rates for the 12th time in 18 months when it meets in September. Despite a surprise 0.5% move in July, that pushed the cost of borrowing up to 8%, the Bank is confident that the government's forecast of 8.5% growth in 2011 will be achieved.

16 September 2011

FSA Infuriates Parliamentary Committee

As we have previously reported, the FSA plans to proceed with the implementation of its Retail Distribution Review on schedule at the end of 2012. You will recall that the key changes include the banning of any commission payments to advisors, so that all advice must be paid for by fees, and increasing the level of qualifications required for advisors. Whilst there is little disagreement with these headline objectives, and many advisors have worked hard to ensure they obtain the necessary examinations the devil, as ever, is in the detail.

The Treasury Select Committee gathered views from a broad range of interested parties over many months and published a very considered report that highlighted some genuine concerns about implementing the proposed changes within the FSA's published timescale. These included concerns about the number of highly competent, experienced advisors who would decide to leave the industry rather than sit a new set of formal examinations. This could make it more difficult for all but the very wealthy to obtain quality financial advice. It also highlighted concerns that some of the elements of the new rules were still unclear and their potential consequences not adequately considered.

However, the FSA instantly dismissed the report and confirmed that it would press ahead without further discussion of the concerns raised. Not too surprisingly, the Chairman of one of Parliament's most prestigious all party committees took great exception to such a speedy rejection of its report and described the FSA as being arrogant and regarding itself to be immune from accountability to any external authority.

This is certainly going to have an impact on the legislation establishing a new regulatory authority. The Select Committee is looking for clear lines of accountability to be established for the body that will replace the FSA when it is abolished in the near future.

Meanwhile, we can hope that the reason the FSA has refused to change its timetable is to avoid advisors losing momentum in their preparations for the implementation of RDR and that some flexibility will gradually emerge as the implementation date gets closer. Many key issues remain unclear and these need to be fully resolved if the transition to the new environment is to be successful.

HMRC is not due to issue guidelines on the treatment of VAT on fees levied for investment advice until next spring, and has explained that the FSA's understanding of how fees levied within pension schemes would need to be dealt with was incorrect. The RDR will allow advisors to collect fees out of investment products in line with agreements made with their clients, but the FSA indicated that this would not be available within pension plans, as it is not permitted to take money back from a pension until it is crystalised at retirement. However, HMRC have indicated that they do not see a problem with this, as they would regard any such payments as administration costs.

The FSA has also indicated that they need to collect a great deal more information before finalising their rules for the regulation of platforms such as Cofunds. These platforms, and associated wrap arrangements, are likely to have an increasing role in the post-RDR world and understanding how these detailed rules are to be implemented is a vital element in how advisors plan their business models – yet there is no indication as to when FSA will issue them.

RDR is probably the biggest change to the financial services industry in a generation, so it is hoped that we either obtain the clarity we need or the FSA delays implementing some aspects of the changes to give advisors time to make life-changing decisions on an informed and fully-considered basis.

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