BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER
FOR THE OUTPLACEMENT INDUSTRY
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Useful information for your candidates

Redundancy

Redundancy is likely to be a stressful experience for many people, so it is vital that advice offered at this time is constructive and relevant, as well as being delivered in straightforward, jargon-free language.

Whether working through on-site workshops or one-to-one sessions, our team's specialist knowledge and results-orientated approach are designed to provide effective support, based on an in-depth understanding of the issues involved.

Redundancy is likely to be a time for some big decisions. Whether you welcome redundancy as an opportunity to take the early retirement you've been dreaming of, or it comes as an unpleasant shock and a time to radically revise your plans for the future, you will almost certainly need to take steps to sort out your finances.

Your redundancy payment could well be the biggest lump sum of cash you ever receive, so it's important to think long and hard about your options, to give yourself financial security for the future.

The first £30,000 of a redundancy payout is free from tax and national insurance, provided it is genuinely compensation for being made redundant. Anything above £30,000 is added to your earnings for that year and will be taxed at the appropriate rate.

If you are planning to find another job, you may need to draw on this cash to pay your mortgage and other bills, so it makes sense to put at least some of the money into an instant access account that also offers a reasonable interest rate. The surplus could be invested in an account requiring longer notice for withdrawals until you're back at work, so it's reasonably accessible in case you need it, although it would still be wise to take independent financial advice about your options for the longer-term.

One potential option to avoid paying tax that portion of a redundancy payment in excess of the £30,000 allowance is to ask your employer to swap part of your redundancy lump sum for an additional payment into your pension, which allows them to save on national insurance costs. In the 2008-09 financial year, you can pay all your annual earnings for the tax year (this can include bonuses and the taxable portion of the redundancy payment) subject to a maximum of £235,000 into a pension in the 2008-09, with a lifetime total of £1.65m and claim tax relief at your marginal rate of either 20 or 40%.

Although putting money into a pension can appear extremely tax efficient it will tie up a substantial lump sum and it could take many years (possibly 30 years) to receive enough income from the scheme to recover the original investment where this will be taxable for life. It therefore demands very careful consideration and should not be done solely to save tax in the short term. However, there is some flexibility: once you reach 50, you can take out 25 per cent of whatever you put into your pension as tax-free cash, although this may be less straightforward for some work-based schemes. From April 2010, you will have to wait until you are 55 to enjoy the same benefits.

Whatever you do, it's important to remember that your pension is likely to be a significant source of your income in retirement either now, or in the future, so taking independent financial advice on the best way forward is a very wise option.

Workshops

Our workshops are a valuable tool in helping thousands of people each year to find practical solutions to the challenges of redundancy and early retirement.

Redundancy can affect people from all walks of life and wide-ranging financial circumstances, so we will work with you to tailor our workshops to cover your particular requirements.

We can guide workshop attendees through the state benefits system and the financial support they may be entitled to in redundancy, including:

- jobseeker's allowance – contribution based and income based
- council tax benefit
- housing benefit
- incapacity benefit
- national insurance and state pension.

We explain the complex eligibility rules for these benefits and other help available to claimants of certain benefits, such as mortgage interest payments and entitlement to free prescriptions and school meals.

We also look at the state pension entitlement and options available for early leavers from occupational pension schemes, including contribution refunds and transfer to a new employer's or private pension scheme.

As a result, many people will have a substantial lump sum to deal with – perhaps for the first time in their lives – which is why we pay particular attention to issues around savings and investments. We explore the pros and cons of different investment options, including:

- banks and building societies
- government stock
- investment bonds
- investment trusts
- ISAs
- National Savings
- stocks and shares
- unit trusts

as well as related topics, including personal tax allowances, inheritance tax planning and wills. We also look at these issues in the context of individual budgets, and the need to balance income and expenditure.

To find out more about how Birchwood Investment Management can help you, contact us:

Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Telephone: 01438 840 888 *(Welwyn)* • 01454 878 722 *(Bristol)* • **Fax:** 01438 840 097
Email: info@birchwoodinvestment.com • **Website:** www.birchwoodinvestment.com

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