BIRCHWOOD INVESTMENT MANAGEMENT LTD

Newsletter for the outplacement industry

Issue Four

Pensions savings limit set at £3,600

Workers will be allowed to pay a maximum of £3,600 per year into the new National Pensions Savings Scheme (NPSS) when it launches in 2012, it has been announced.

The cap is lower than the initial proposal of a £5,000 limit and follows pressure from the pensions industry, which feared the scheme would provide unfair competition for their products.

However, it has been claimed that the new limit would still allow someone on average earnings to put aside enough to receive the recommended two-thirds of their income in retirement.

The NPSS was introduced as part of the Pensions Act 2007, and the notion of a national, government-backed scheme to help the lower-paid access pension provision had cross-party support.

Under the proposals, employees will pay in four per cent of their salaries, employers will add three per cent and the government will give one per cent tax relief. Everyone will be enrolled in the scheme unless they explicitly opt out.

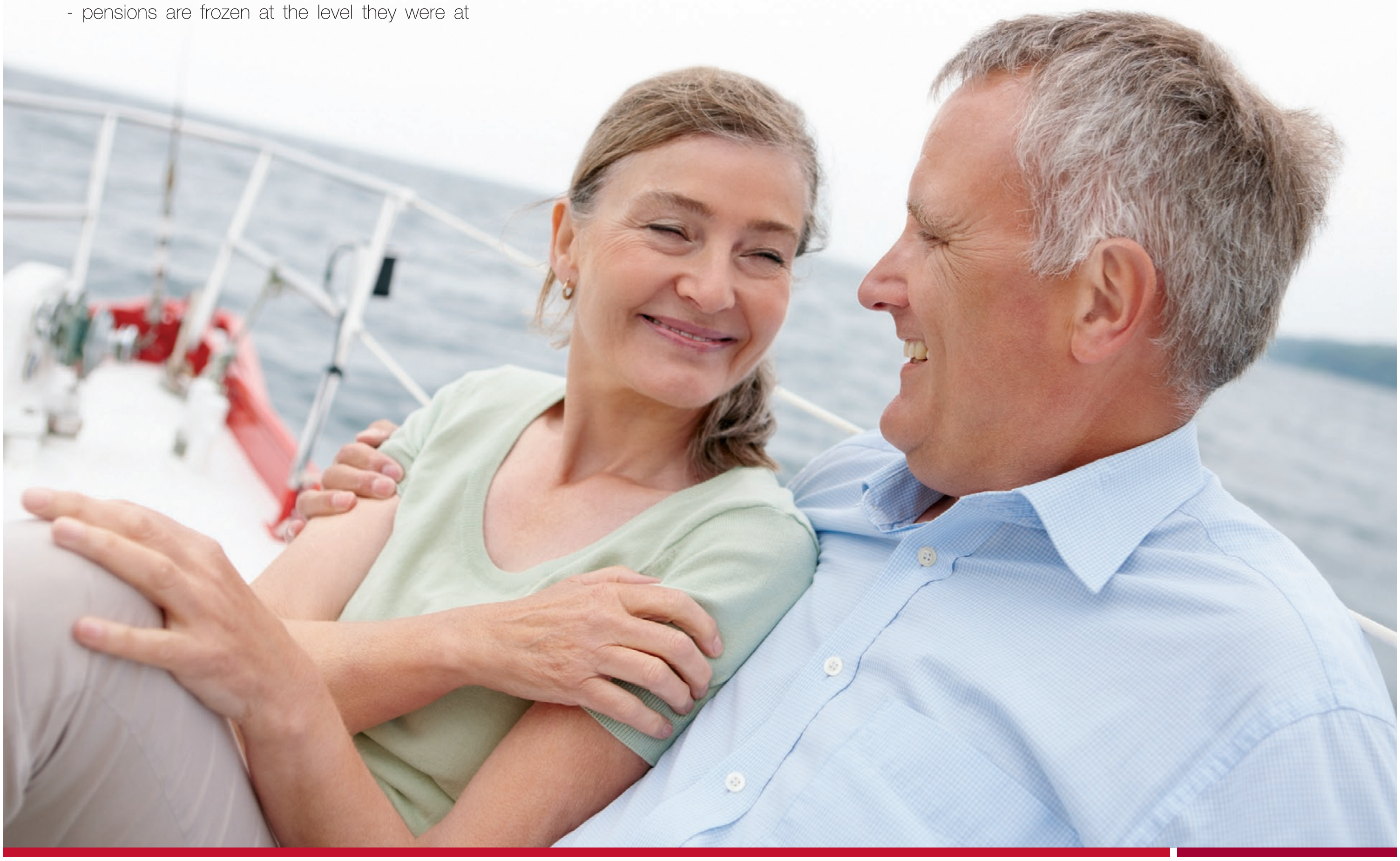
Expats lose pension freeze appeal

Around half a million UK pensioners living overseas will continue to have their pension levels frozen following a decision by the European Court of Human Rights.

Within the European Economic Area and some countries with which the UK has reciprocal arrangements such as the USA, pensions do rise in line with inflation. But elsewhere in the world - including Australia, Canada and South Africa - pensions are frozen at the level they were at when the recipient retired - potentially resulting in a huge shortfall in later years.

The court rejected the appeal by a group of pensioners by an 11-6 majority, following an eight year battle. The campaigners conceded they had no further legal avenues to pursue, but intended to take their fight to the ‘court of public opinion’ and raise awareness of their plight in an attempt to get the government to change its mind.

The government, which stated its first responsibility was to pensioners living in the UK, is set to save around £500million a year as a result of the decision.



All change on state pensions

The state pension has been with us for over 100 years, with the first payments made on 1 January 1909 – but this April saw some of the biggest changes since the system was introduced. These included a reduction in the number of qualifying years required to receive a full basic state pension, changes to the state pension age and new National Insurance (NI) contribution credits.

Previously, state pensions could be claimed from age 65 for men and 60 for women and for those who were already in receipt of a pension, that will not change. However, for women born on or after 6 April 1950, their state pension age will gradually increase between now and 2020, until it also reaches 65. For those born on or after 6 April 1959, the state pension age for men and women will then increase further, until it reaches 68 years of age by 2046.

April also saw a reduction in the number of 'qualifying years' required to claim a full Basic State Pension, with both men and women now only needing to work and pay NI contributions for 30 years in order to receive the full amount. This is designed to help those who have taken time-off to care for children or other relatives, while parents or carers will also be able to build up additional pension entitlement through new 'contribution credits'.

It will also be possible to combine contributions from earnings with credited contributions to build up entitlement to the State Second Pension (formerly known as the State Earnings-Related Pension or SERPS). The method of accrual will also change, so the current earnings-related element will be replaced by a flat-rate additional payment by around 2030.

Even for individuals with substantial private pensions or savings, it is still important to consider the state pension when calculating retirement income, and it is a good idea to obtain a state pension forecast periodically.

The minimum age at which a private pension can be accessed also increased in April, from 50 to 55, unless serious ill health is a factor.

ISA limit set to rise further

Following a first decade of the ISA which saw just one increase in the allowances available to all savers, the government has pledged an annual increase for the duration of the next parliament.

While the ISA limit for all savers has increased to £10,200 from 6th April 2010, this could grow to £11,200 within five years after the move to link increases to the level of inflation from 2011-12.

Assuming the government's target two percent rate of inflation, ISA limits could reach £10,440 in 2011-12, and break the £11,000 barrier within five years.

The new limits, which will be rounded to the nearest £120, will be calculated using the Retail Price Index for the September prior to the new tax year and announced a few months before the tax year starts.

In the event of deflation, the allowance levels will be frozen.

Jobs information is on the move

Jobseekers need to be aware of where to look on the internet for help and support, after the main Jobcentre Plus website closed on 31 March.

None of the information previously featured there has been removed from the internet, but it has all moved to new locations on one of three existing websites.

The content for jobseekers – including the all-important vacancy lists – has moved to the main Directgov website at www.direct.gov.uk. The government hopes this will benefit jobseekers, as they will be able to access information on issues including benefits, training, redundancy, voluntary work and childcare all in one place.

Information for employers is now included on the enhanced Business Link website at www.businesslink.gov.uk, with information on recruitment, training and managing people, as well as guidance on the regulations and paperwork involved. The site also includes general information on how to grow businesses during tough economic times, and case studies of successful firms.

Strategic partners and stakeholders will now need to use the Department for Work and Pensions site at www.dwp.gov.uk.

Partners and intermediaries who share customers with Jobcentre Plus have been asked to ensure their customers are aware that the changes have taken place and that the online information is still available in the new locations.

Jobs market continues to recover

There were further signs of recovery in the jobs market during April, as the number of permanent and temporary/contract appointments continued to grow, albeit at a slower rate to the month before.

The Report on Jobs, published by the Recruitment and Employment Confederation (REC) and KPMG accountants revealed that the growth in appointments coincided with increased demand for staff from employers. Staff availability also increased, although by a slower rate than in the previous month.

Wages also increased, at the fastest pace in over two years, for both permanent and contract staff.

The REC welcomed the continued growth in the jobs market, but said the outlook remained uncertain, with probable government spending cuts on the horizon.

The organisation suggested the public should adopt some of the tactics previously used by the private sector – such as short-term working, sabbaticals and pay freezes – in order to reduce the number of job losses that would be required.

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