BIRCHWOOD INVESTMENT MANAGEMENT LTD

Newsletter for the outplacement industry

Issue Eight/July 2012

Counting the cost of redundancy

A new report has highlighted the financial and other impact of the jobs recession on workers and the wider economy, including a £28 billion bill for employers.

Counting the Cost of the Jobs Recession, published by the Chartered Institute of Personnel and Development (CIPD) on 14 March, found that:

- almost 2.7 million people have been made redundant in the past four years, equivalent to one in ten employees at the start of the recession
- of those made redundant, 1.7 million (64 per cent) are men and 0.98 million (36 per cent) are women
- the total cost of redundancy to UK employers since the start of the jobs recession is an estimated £28.6 billion
- there is significant variation in the cost of redundancy across different sectors of the economy, ranging from £10,000 in manufacturing to £8,000 in private sector services and £29,000 in the public sector
- two-thirds of people made redundant are paid less in the next job they find. On average, the reduction is 28 per cent
- the proportion of employees receiving a pay increase has dropped from two-thirds in 2008 to less than half (45 per cent) in 2011. In cash terms, the average worker is £3,000 a year worse off than if pay had increased at the pre-recession rate
- private sector workers are on average earning 7% less in real terms than in 2008 and public sector workers 4% less.

Dr John Philpott, chief economic adviser at the CIPD, said: "Given that redundancy also affects the families, friends and former colleagues of those made redundant, the number of people indirectly affected by redundancies is far greater than the almost 2.7 million who have been handed their P45s."

'Cash back' option extended

The government has announced a rule change that will allow more people to cash in small pension pots.

With people moving jobs during their working lives, it is becoming increasingly likely that they build up a "patchwork" of retirement plans, which may include both occupational schemes and personal pension pots.

Under the old rules, people were able to take a pension pot as cash after they reach age 60 if the total value of all their pension savings is less than £18,000. This process is known as trivial commutation.

Members of occupational and public service schemes could also take individual pots worth less than £2,000 as cash.

Now, from 6 April 2012, individuals aged 60 or above will be able to take cash in a maximum of two pension pots, each with a value of £2,000 or less, during their lifetime.

HM Revenue & Customs (HMRC) says the move will help people ineligible for trivial commutation because their pension savings are more than £18,000 to access a very small personal pension pot as well as those who have already taken a trivial commutation lump sum and later discover they have small pension benefits in a personal scheme.

HMRC says that research suggests there are around 25,000 people aged 60 and over with total pension wealth of more than £18,000 and at least one personal pension of less than £2,000.

Pension tax relief remains intact

In February, it was widely reported that the government was considering reducing tax relief on pension contributions to the basic income tax rate of 20 per cent or lowering the overall annual cap on contributions, which the coalition has already cut once before, in 2011 from £255,000 to its current level of £50,000.

Tax relief is currently available on pension contributions up to £50,000 per year. People paying tax at 40 per cent tax receive 40 per cent relief on contributions, which effectively means that for every £1 invested in their pension fund, they pay only 60p. In the same way, people paying tax at 50 per cent receive 50 per cent relief on contributions.

Chancellor George Osborne said in his speech on 21 March that he did not intend to make any changes to pension tax relief "in this Budget". Some commentators are interpreting that such a move is still on the table. The £50,000 cap on pension contributions was also left intact.

Although people earning more than £150,000 will see their maximum tax relief fall from 50 per cent to 45 per cent in April 2013, in line with the reduction in the 50p tax rate for higher earners to 45p from next year, they will have another year to save into a pension and get full tax relief at their income tax rate.

It had been reported that cutting tax relief on pensions from 50 per cent to 20 per cent would have saved the Treasury £7 billion a year, with Chief Secretary to the Treasury Danny Alexander commenting in February: "If you look at the amount of money that we spend on pensions tax relief, which is very significant, the majority of that money goes to paying tax relief at the higher rate."

With future changes to pension contributions tax relief likely to remain on the table, seeking expert advice on maximising the efficiency of pension arrangements is likely to be a sensible step.

Budget blow as age-related allowances axed

Major changes to state pension arrangements in the 2012 Budget have been slammed as a "stealth tax" on older people.

Chancellor George Osborne announced on 21 March that from April 2013, age-related income tax allowances for new pensioners will be withdrawn.

The age-related allowances for existing pensioners will be frozen at £10,500 for the over-65s and £10,660 for the over-75s until overall tax thresholds catch up with them.

Mr Osborne described the move as "a major simplification" that would save money, adding that no pensioner would lose in cash terms.

But Michelle Mitchell, charity director general of Age UK said the move would affect older people with modest pensions and retirement savings.

And she warned: "Someone with an income as low as £10,500 who reaches 65 from April 2013 could be £259 a year worse than under the current system, with very little time to adjust their financial retirement plans."

Saga director-general Dr Ros Altmann said: "This Budget contains an enormous stealth tax for older people. Over the next five years, pensioners with an income of between £10,500 and £24,000 will be paying an extra £3 billion in tax."

And Dot Gibson, general secretary of the National Pensioners Convention, said: "The decision to freeze the age-related personal tax allowances effectively means around five million pensioner tax payers will no longer get additional reductions in their tax over the coming years."

In another significant move on pensions, Mr Osborne confirmed plans to simplify the basic state pension and its interaction with the second state pension.

Promising more details later in the spring, he said there would be a new, flat-rate pension for future pensioners. The contribution-based pensions, currently estimated at £140, would be introduced early in the next Parliament, likely to be 2016. Existing pensioners will not be moved to the new scheme.

The move means that people on low incomes who have made small or no contributions to the second state pension will receive more than they could currently expect, while those who earn higher salaries will lose out. The current full basic state pension is £102.15 a week (rising to £107.45 from April 2012), but those at the top end of the salary scale can expect up to £180 a week in combined pension payments.

Mr Osborne also announced that an automatic review of the state pension age – due to increase to 66 by October 2020 and 67 by 2028 – would be introduced to take account of increases in longevity. Insurer MGM Advantage has calculated that the state pension age could rise to 73 if longevity rose between 2031 and 2051.

Andrew Tully, the firm's pensions technical director, said: "This should serve as a wake-up call for many people. Today's 33-year-old is likely to need to work until age 73 before they get their state pension. They may have planned to work to age 65, but the reality is likely to be beyond age 70 for many."

'Avoid early release offers' warning

Consumers have been urged to steer clear of offers that claim to be able to provide loans or release tax-free cash from people's pension pots before they reach the age of 55.

The Pensions Regulator, the Financial Services Authority (FSA) and HM Revenue & Customs (HMRC) issued the warning on 25 February after detecting an increase in these schemes, with funds of nearly £200 million known to have been transferred by the end of 2011.

They urged individuals not to be taken in by website promotions, cold calling or adverts encouraging them to switch their existing occupational or private pension to a new arrangement in order to access a cash payment or loan.

These schemes usually work by transferring some of the member's pension fund into investment structures, which are often based overseas, with no guarantee that members will get their money back if something goes wrong.

Victoria Holmes of the Pensions Regulator said: "These offers are typically advertised on websites or small adverts in newspapers. If the offer sounds too good to be true, it probably is. It may simply be a scam designed to get hold of your money.

"Transferring your pension to one of these questionable investment models could result in you losing your entire pension."

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