

Annuities picture 'confused'

Fewer than ten per cent of consumers are aware that men are likely to receive less from annuities taken out from 21 December 2012.

The figure was revealed on 17 August following an online poll by global research company ORC International, which found that of 5,000 people responding, only nine per cent of men and eight per cent of women were aware of the potential impact on annuities of a European Court of Justice (ECJ) ruling.

At present, women's longer lifespan means they generally receive a lower annual income amount than men when purchasing an annuity for the same lump sum.

But from 21 December 2012, providers will no longer be able to take into account whether someone is a man or woman in deciding what benefits that might be paid. The change also affects products including life, critical illness, income protection and health insurance.

ORC International said the picture was "confused". Vicky Whiting, research director at ORC International, said: "Women are more likely to be

retiring on smaller pension pots and need every retirement penny they can get."

But she added: "Providers are currently unable to state whether there will be a positive uplift for women compared with current annuity rates [but] figures of three to ten per cent reductions in retirement income have been quoted for men."

The Financial Services Authority said in guidance issued in July that "insurers are still working out how to deal with the changes" in terms of pricing and that after 21 December 2012, different companies would continue to offer different prices and benefits through their annuity and pension products.

But it said: "It is likely that for products where men currently pay lower premiums than women or get higher benefits (i.e. annuities, critical illness, medical insurance or income protection) the cost of cover is likely to rise or, in the case of annuities, the benefits payable are likely to fall. Women may be asked to pay more for products such as motor and life insurance after 21 December 2012."

It added that anyone considering purchasing an annuity from a pension should make themselves aware of all the options open to them, including the open market option (OMO) of shopping around for different annuity providers, rather than taking the quote provided by their existing pension provider.

- HM Revenue & Customs confirmed on 8 August that the amount of income that women can take from pension drawdown arrangements will from December 2012 be based on male annuity rates, which are higher.

It said: "The ECJ has said that changes implementing the judgement have to be in place by 21 December 2012. However, it is not yet certain how annuity providers will actually implement it.

"Until it becomes clearer how annuity providers will apply the judgement in practice, the maximum drawdown pension for both men and women aged 23 and over should be calculated using the higher male rates from 21 December 2012."



Pensions advice pays dividends, says report

A new report has highlighted the value of taking independent financial advice in boosting retirement income by around £232 a month.

The report, published in July by financial and legal advice resource unbiased.co.uk and Standard Life, found that the current average pension pot for consumers who have been advised on their retirement planning was £74,554.30, double that of those not seeking advice (£37,277.10).

Those who have taken advice put nearly a third more a month (£167 compared with £108) into their pension plan. People who had not taken advice thought they should put an average of nine per cent of total salary into retirement savings

while the advised group thought the figure should be for 11.4 per cent.

Based on a 54-year old – the average age of the pension savers surveyed – this could mean the difference between receiving £493 a month retirement income (based on the advised figure) versus £261 a month (non-advised).

Karen Barrett, chief executive of unbiased.co.uk, said: "Taking independent financial advice is something almost everyone should consider. For the majority, independent financial advice is within their means and can provide peace of mind.

"Consumers are currently faced with delayed

retirement ages and rising life expectancies – we are an aging population and we need to be putting the right preparations in place for this. Our joint report shows that those who have taken advice are far better positioned right now for retirement than those who haven't."

Meanwhile, personal retirement planning was the number one reason for independent financial advice searches at unbiased.co.uk in July 2012.

Such enquiries accounted for 32 per cent of all those received at unbiased.co.uk while investment and savings was the second most popular topic, making up 23 per cent of searches in July.

Bosses holding on to skilled staff...for now

Employers are holding on to more staff than they need because they do not want to lose skills from their team – but they could be forced to cut back if demand does not increase, new research has found.

The latest quarterly Labour Market Outlook (LMO) report from the Chartered Institute of Personnel and Development (CIPD), published in August, found that almost one-third of private sector firms questioned had maintained staff levels higher than required by their level of output or service delivery in the 12 months to June 2012.

The key reason, cited by 66 per cent of private sector firms, was to maintain the skills base within the organisation. Others had held back on redundancies because they were expecting a rise in output (21 per cent), because of the costs involved in reducing the workforce (16 per

cent) or because of the costs of rehiring people in future (15 per cent).

But almost 63 per cent where staff levels did not match output felt that it was very likely or likely that they would have to cut their workforce back if output/service delivery did not recover in the next quarter or 12 months.

Gerwyn Davies, labour market adviser at the CIPD, warned that although retaining workers gave businesses the flexibility to respond to demand, they could not do so indefinitely.

He said: "The tenacity with which employers are hanging on to skilled labour is a reflection of the high value they place on it and the damage they fear will be done to their businesses if they are forced to start making more redundancies. But there is only so long they can hold out for growth."

Elsewhere, the number of LMO employers actively planning to make redundancies fell. The figure for the quarter to September 2012 fell to 28 per cent from 32 per cent in the previous three months.

The proportion of public sector employers planning to make redundancies fell to 39 per cent from 45 per cent while in the private sector, the figure was down to 23 per cent from 25 per cent.

Recruitment intentions among LMO employers also increased slightly since the spring 2012 report. Just over two-thirds of employers (67 per cent) planned to hire in the third quarter, with 74 per cent looking to recruit full-time staff and 26 per cent part-time.

The LMO is based on responses from more than 1,000 HR professionals, many of them CIPD members.

'Recycling' can boost pensions efficiency, say experts

Significant tax savings are available by reinvesting unused pension income into a new pension scheme, investment experts say.

Investment firm Skandia reported in August that someone with a pension of £150,000 entering income drawdown at age 55 and recycling unused income for ten years could save £28,000 in tax.

Skandia recently revealed that 59 per cent of customers had taken tax-free cash from their pension but had not started taking an income from the rest of their pension fund. Should they die, the rest of their pension fund would be

subject to a 55 per cent death tax charge.

Instead, people could take an income from their existing drawdown pension fund to re-invest as a new contribution. The income tax paid when taking money out of the existing pension is offset by the tax relief received when investing as new pension savings.

People under 75 can pay up to £3,600 a year into a pension and receive tax relief on those contributions, even if they have no earnings. Someone who is working can contribute even more, subject to the £50,000 annual allowance

for pension contributions eligible for tax relief.

Adrian Walker of Skandia said: "Recycling unused pension income is not about building a bigger overall pension fund, it is about building a more efficient long-term retirement solution.

"The current economic environment has created uncertainty for many and people may take their tax-free cash, but be unsure of the best time to start taking an income, or which income route to choose. People in this situation should seek professional advice, as this procrastination could end up costing them thousands."

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