

JANUARY 2008 NEWSLETTER

Pensions Bill 2008

As promised in the last Newsletter, a few words about this.

It is concerned with the new National Scheme of Personal Accounts, due to come into force in 2012.

It is fairly turgid stuff. The bottom line is that a minimum of 8% of “Qualifying Earnings” must be paid each year. Of that the employer must pay at least 3%. Qualifying earnings are those between £5,035 and £33,540 and these will be reviewed annually.

The main talking point in the press has been to do with the proposed “automatic enrolment” i.e. the requirement that for anyone aged 22 or over they will be automatically enrolled into the scheme unless they opt out. Many small employers are fighting against this, as they see it as increasing their employment costs by 3%.

There is also a fear that some employers, when interviewing potential staff, will ask them if they intend to opt out or not – the concern being that those who say they will opt out may be employed in preference to those who say they won't. As usual, politicians are creating an unnecessary dog's breakfast!

The big issues of course will be investment and administration and these are still to be sorted.

What should IFA's be doing?

If you have clients who run a small business and they have no interest in providing any kind of retirement benefits for their staff, then there's not much that can be done!

However, if they are a more caring employer who wants to help their employees save for retirement, consider a corporate SIPP. These are likely to be much better than the proposed Personal Accounts.

How does a Corporate SIPP work?

Each member has their own SIPP. Usually the employer pays the costs of the administration of the SIPP i.e. our fees, and perhaps also pays for you the IFA to advise them on how to invest their SIPP assets.

Initially the SIPP assets may well be held in cash (remember with our SIPP the minimum interest rate is 0.25% below Base Rate, with of course a full capital guarantee – this is very attractive to many small savers). When it has built up to say £5,000, you may advise them to invest it more actively. That's up to you.

What does a Corporate SIPP cost?

For a small employer with say 10 employees, the set up cost per member is only £100, and our annual fee is 1% of the assets, with a minimum annual fee of £200 and maximum of £400 (all fees are, of course, plus VAT.) We believe that is good value.

And you, as the IFA, get many new clients who have guaranteed increasing funds.

Lower personal taxes

Remember that the basic rate of tax reduces to 20% from 22% from 6th April 2008. So those of your clients who are basic rate tax payers should consider maximising their pension contributions in the 2007/08 tax year, so as to ensure tax relief at 22% rather than 20% i.e. their tax savings this tax year will be 10% higher.

Start young!

We remind you that SIPPs can be set up at birth. Remember too that anyone can pay in up to £3,600 a year gross into their children's SIPPs and get tax relief at their marginal rate.

Our Acorn SIPP is ideal for this – no set up fee and an annual fee of just 1% (minimum £250 plus VAT) – and the fees for the child's SIPP can be paid out of the parent's SIPP (if they also have an MWSIPP).

The power of compound interest!

£3,600 a year paid in from birth to age 18 will accumulate to £1.8M at age 65, assuming an average investment return of 6% a year.

Another examples is of investing £39 a month net (£50 gross) from birth to age 18 – on the same assumptions the fund at 65 will be £506,000.

One other point: this is **very** long term investment, 65+ years. So parents and advisors can perhaps be quite adventurous with the investments with a view to obtaining better yields over the longer term.

And IFA's add embedded value to their business, as by definition they are adding new clients who will be with them for literally generations to come.

The child SIPP market is an easy one too – all of an IFA's clients will have children or grandchildren who qualify.

Gilt yield for drawdown rates

The gilt yields to use for drawdown calculations are:

July 2007	5.25%
August 2007	5.25%
September 2007	4.75%
October 2007	4.75%
November 2007	4.75%
December 2007	4.50%
January 2008	4.50%
February 2008	4.25%

We do not give financial advice and no comments here are intended as such. Before taking any action you should consult a qualified financial and/or tax adviser.

January 2008

**MW Pensions Ltd
Oaklands Park
Hooton Road, Hooton
South Wirral
CH66 7NZ**

Tel: 0151 328 1777

Fax: 0151 328 0707

Website: www.mwpensions.co.uk

Email: admin@mwpensions.co.uk

Authorised and Regulated by the Financial Services Authority