Chessman & Partners Ltd

SUMMER 2011

COMPULSORY WORKPLACE PENSIONS

WHAT EVERY EMPLOYER NEEDS TO KNOW

The biggest change to pensions for a generation will be staged in between 2012 and 2016.

All employers, from their staging date, (speak to us to identify your staging date) will be required to automatically enrol individuals between age 22 and State Pension Age into a qualifying workplace pension scheme (auto-enrolment), and to pay contributions for anyone earning over the trigger point for paying Income Tax (£7,475 in 2011/12 tax year). The employer will have to pay some of the contribution, and could pay all of it.

Apart from the cost of paying the contributions, it is feared the biggest challenge employers will face is record keeping. The rules, which we understand will be strictly enforced, are complex and there are fines of up to £50,000 for failure to follow them. The Pensions Regulator has began the process of writing to employers warning that they are required to:

- Assess their workforce
- Identify who to automatically enrol
- Choose a pension scheme
- Register with the regulator
- Pay the correct pension contributions
- Process any opt-out notices
- Process opt-in or joining requests
- Avoid inducements and prohibited activity
- Keep accurate records
- Provide workers with information about the changes

All employers, whether they have existing pension arrangements or not, will need to consider very carefully how they are going to comply with the new regulations.

We are part of a national group which has developed a cost effective solution to assist employers do exactly that. Even if your staging date seems a long way off, changes in the Financial Services Industry at the end of 2012 may have a huge impact on the costs involved in providing workplace pensions.

We offer an audit of your current pension arrangements, and will provide you with a comprehensive written report enabling you to plan for this huge change in employer responsibilities.

If you are a business owner or manager and would like to discuss how this will affect you, please call us ASAP.

WELCOME

It has never been more important to plan for retirement and consider the future. It has long been accepted that improvements in medicine, lifestyle and an understanding of the effects which habits such as smoking can have on our health means life expectancy is increasing. Future generations will enjoy much longer and healthier lives on average than their predecessors.

However, figures released recently by the Department of Work & Pensions illustrate rather accurately exactly what that means. These figures suggest, of the under 16s already alive today, over a quarter are going to reach the age of 100 – and already, the average new-born female is going to live to over 90.

As Steve Webb, Minister for Pensions, commented at the time, this means that millions of people will spend over a third of their life in retirement. However, as the DWP were quick to point out, this news also coincides with a period during which pension savings are in serious decline.

An ageing population is putting our welfare system under significant pressure as more people need not only pension income but also healthcare, incapacity support and help within the home. You can therefore have no expectation that your State Pension will provide anything other than a safety cushion when the time comes. It is therefore an opportune moment for you to review your pension provision and what you want from your retirement.

This isn't only important for individuals to be thinking about their pensions, but also for business owners and managers as we move towards the enforcement of Compulsory Workplace Pensions and auto-enrolment.

Best regards,
Mike Baughan, Keith Jamson & Michael McDonnell

UK INTEREST RATE UPDATE

The nine members of the Bank of England's (BoE's) interest-rate-setting committee voted by six to three in favour of maintaining UK rates at an all-time low of 0.5% at their June meeting. This decision caused no great surprise, given the current environment of muted economic growth and high inflation. The rate of inflation reached 4.5% during April and the BoE believes it could rise as high as 5% during 2011.

The Monetary Policy Committee (MPC) continues to grapple with the same unappealing choice: either to increase the cost of borrowing in order to curb inflationary pressures, or to maintain interest rates at their current exceptionally low levels in order to support economic growth. The minutes of the MPC's May meeting revealed a "wider-than-usual" range of views about the outlook for economic growth. They also highlighted "substantial uncertainties" over the effect of the squeeze on real household incomes, the extent to which exports will support growth and whether high profits within the corporate sector would be reinvested or distributed.

This was the fourth consecutive month that three members of the Committee have voted for an increase in interest rates. MPC member Andrew Sentance – the member who has pressed most vigorously for a rate increase – is leaving the Committee and will be replaced by Ben Broadbent, formerly of Goldman Sachs. In a speech delivered during April, Mr Sentance warned that the MPC might have undermined its own credibility by not adjusting its interest-rate policy settings early enough.

The question now is not whether the MPC will increase interest rates, but when. The Confederation of British Industry believes that the BoE will raise rates later this year, while the influential Ernst & Young ITEM Club expects the MPC will "hold fire" until at least November. The latter believes inflation will continue to increase, but does not expect wages to rise significantly, as there is still spare capacity in the labour market. Meanwhile, the British Chambers of Commerce (BCC) has highlighted the international factors – commodity prices and high import prices – that are fuelling UK inflation. The BCC believes that "premature" interest rate rises could have a severely negative effect on jobs and economic growth, and urged the MPC to maintain low rates over the next few months to avoid derailing the fragile economic recovery.

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JUNIOR ISAs

The Government has now confirmed details of the long awaited savings plan analysts had been expecting since the withdrawal of Child Trust Funds (CTF) last year. The Junior ISA will be launched in November and will extend to under 18s the same tax benefits which parents (and all adults) already enjoy. Their exact structure is subject to final legislation which may change, but this is the plan so far.

The Junior ISA will allow parents to open up a specific account in their child's name, into which a total of up to £3,000 a year can be contributed. These contributions will then be invested in a chosen mixture of cash and/or stocks and shares and the benefits locked up until that child reaches 18. Anyone under 18 born before September 02 or after January 11 (ie: those who do not have a CTF) will be eligible for a Junior ISA (and for those with CTFs, the annual limits are expected to be brought in line).

The Junior ISA could provide a significant step up for children whose family and friends get together for their benefit. Final values are subject to growth rates but just to give you an idea, assuming an average of 5% pa (net of charges), that £3,000 pa could leave the lucky beneficiaries with a contribution of over £80,000 towards their world trip, first house or those hotly debated university tuition fees.

AFTERSHOCKS OF JAPANESE EARTHQUAKE

Japanese companies continue to count the cost of the Great East Japan Earthquake. The Bank of Japan (BoJ) warned that many Japanese companies – particularly smaller firms – are likely to experience a slowdown in turnover. According to the BoJ's quarterly Tankan survey of Japanese firms, companies became more pessimistic after the disaster. Business sentiment amongst large companies shifted from positive to negative, and sentiment amongst medium-sized and smaller companies was even gloomier.

Private consumption is expected to remain subdued during 2011. Consumer confidence deteriorated in the wake of the disaster and problems with electricity supply have led some shops to cut their opening hours. Retail sales dropped sharply during March, falling by an annualised 8.5% as spending plummeted. The Organisation for Economic Co-operation & Development (OECD) expects economic output to fall sharply during the second quarter of 2011, after which it should rebound.

Many technology companies – including Sony and Panasonic – were forced to suspend production following the earthquake and tsunami. Although some of Toshiba's subsidiaries halted production for a while following the disaster, the company said that the impact on its overall business performance was "relatively limited."

Ratings agency Standard & Poor's revised its outlook on six Japanese car manufacturers and suppliers – including Toyota, Honda and Nissan – from "stable" to "negative". Having been badly affected by a shortage of components and disruptions to production in the wake of the earthquake and tsunami, the performance of Japanese automakers and suppliers is likely to deteriorate during 2011, heightening the risk that their market share could become permanently eroded in the longer term.

Toyota's production in Japan fell by 63% during March, and the company cut or suspended production at its plants around the world. Toyota has experienced a delay in delivering its new "Prius a" model, but expects its output in Japan to return to 70% of capacity by the end of June, which is earlier than initially expected. Meanwhile, Nissan reported record annual sales of 4.2 million vehicles. The company said that, although the earthquake had significantly disrupted its operations, Nissan had proved its "resilience in the face of adversity".

Unsurprisingly, the disaster had a severely negative impact on exporting activity, and Japanese exports fell by 2.3% during March. According to the OECD, Asia accounts for 56% of Japanese exports. Intra-regional trading activity in Asia appears to have picked up – the question remains whether Japan can satisfy rising demand.

REVIEWING CASH ISAs

Low interest rates are great news for borrowers but for savers, they can have a devastating effect. With inflation currently running far in excess of base rates, even though the value of your capital may be safe, you need to keep a close eye on the interest rates you are earning to stop, or at least limit the rate at which the buying power of your money is being eroded.

Nowhere is this more apparent than with Cash ISAs. In a recent survey for watchdog, Consumer Focus, over 80% of Cash ISA holders were found to be earning less than just 0.5% a year on their savings. In most cases, the attractive introductory rates which lured savers in had come to an end and been replaced by very low "standard" rates. In some cases this change had even gone unnoticed.

Whilst it is true that, whatever the conditions in the market, most people should hold at least some money in an easy access, readily available deposit account, simply to make sure they can cover unforeseen emergencies and short term needs, any saver with longer term plans should be alarmed by findings like this. At the very least, you should do a review of the market and see if you can find an account paying more.

In response to the findings, Consumer Focus suggested that: "...customers who have not switched their [ISA] savings may be losing one to two per cent in interest. In total this could amount to as much as £1.5 billion to £3.0 billion per year..." With those potential gains at stake, it is certainly worth shopping around.

Chessman & Partners Ltd

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