

Chartered Banker

Leading financial professionalism

Diploma in Investment Planning

Financial Services, Regulation & Ethics

Investment Principles & Risk

Personal Taxation

Pensions, Retirement Planning & Financial Protection

Key Updates – 2011

These notes must be read in conjunction with the main textbooks (2010)

The material contained with this update document will be examined with effect from 1st September 2011

Important Technical Information

Regulation and legislation in relation to matters affecting the financial services sector is fast moving, with changes frequently being made. These updates contain the key changes announced in the Budget 2011. These Budget changes are subject to being made legislation and this is expected to happen in June / July 2011.

Financial Services, Regulation & Ethics

Chapter 1

Bank re-capitalisation – page 24

The first paragraph is replaced by:

The Government currently holds 83% of the total share capital of the Royal Bank of Scotland and 41% of the total share capital in Lloyds Banking Group.

Regulation and the financial markets – UK regulation – page 26

The entire paragraph following the “boxed” Example is replaced by:

The Financial Services Act 2010 received Royal Assent on 8th April 2010. The Act mainly amends the Financial Services and Markets Act 2000 (FSMA) in order to give the Financial Services Authority (FSA) new objectives and duties and extend its powers. It delivers wide-reaching reforms that strengthen financial regulation, support better corporate governance and further protect consumers, for example, it:

- Provides the FSA with an explicit financial stability objective – in considering this objective, the FSA must have regard to the economic and financial consequences of instability and the possible impact on UK financial stability of events and circumstances outside UK
- Enables the FSA to increase its powers of information gathering and punishment as part of the supervisory enhancement programme
- Gives the FSA a wider authority to prohibit short selling
- Requires the FSA to establish a new consumer financial education body to educate the public on financial matters and the management of their own financial affairs – to this end, the Consumer Financial Education Body (CFEB) was established in April 2010
- Contains provisions which, when commenced, will enable the FSA to write rules which put in place consumer redress schemes thus allowing it to make sure that consumers receive redress in cases involving large-scale consumer mis-selling or other failures
- Requires the FSA to make rules to ensure that firms have and follow a remuneration policy – these remuneration policies must be consistent with effective risk management and may prohibit firms from remunerating staff in specific ways.

In June 2010, the government announced its intention to replace the FSA as a single financial services regulator with two new successor bodies, the Prudential Regulation Authority and the Financial Conduct Authority. This major change is covered later in the text.

Chapter 2

The Financial Services Compensation Scheme – Compensation limits – page 67

The section on Deposits is replaced by:

DEPOSITS

Amount covered: up to £85,000* per person per authorised institution (100% of the first £85,000)

* This is the sterling equivalent of the €100,000 deposit compensation limit which came into force in all European Economic Area (EEA) member states from 31st December 2010.

Depositors may still receive a share of their savings above £85,000 following any distribution of assets as part of the insolvency process for a failed institution.

There is a gross payout, which protects customers by ring fencing their deposits if they have savings and loans with the same firm. Previously, an outstanding loan or debt would be deducted from any compensation.

Compensation should be paid, in the majority of cases, within seven days of a bank, building society or credit union failing. Any remaining claims, which are likely to be more complex, will be paid within 20 working days.

Chapter 3

The client / adviser relationship – The adviser’s duty of confidentiality – page 84

The third sentence of the third paragraph, commencing ‘Failure to ...’ is amended to:

Failure to do so may result in the individual facing the prospect of criminal liability, with anyone found guilty of a “failure to disclose” offence potentially facing up to five years in prison and / or having to pay a fine.

A final sentence is added to the fourth (final) paragraph as follows:

Anyone within the regulated sector found guilty of “tipping off” is liable to up to two years imprisonment and / or a fine.

Retirement – page 99

The final sentence of the second paragraph, commencing ‘For many clients’ is amended to:

For many clients this relief is available on contributions of 100% of their annual earnings (up to a maximum of £50,000 from 6th April 2011), or £3,600, if greater. A client may be able to receive tax relief on contributions in excess of £50,000 in a tax year if they were a member of a registered pension scheme in the previous three years and had unused annual allowance in those years – this is known as the “carry forward rule” and is further discussed in the Pensions, Retirement Planning & Financial Protection module.

Estate planning and taxation – page 99

In the third paragraph, the tax year is amended to:

2011 / 2012

State benefits - Statutory Sick Pay (SSP) – page 100

The third (final) bullet point is replaced by:

They earn, on average, at least the amount of the lower earnings limit, i.e. the amount earned before an individual is treated as paying National Insurance contributions.

State benefits – Statutory Maternity Pay (SMP) – page 103

The second (final) bullet point is replaced by:

earning, on average, at least the amount of the lower earnings limit

State benefits – State Pension – page 104

The final sentence of the second paragraph is replaced by:

Additionally, the government has published proposals that will mean that from December 2018, the State Pension age for both men and women will start to increase so that it reaches age 66 by April 2020. Further rises to ages 67 and 68 will occur by April 2036 and April 2046 respectively.

State benefits – Employment and Support Allowance (ESA) – page 105

The final sentence is replaced by:

Those already in receipt of Incapacity Benefit will continue to receive it, although it is intended that recipients will be moved to the new benefit by 2014.

Mortgage loans – Interest only – Individual Savings Account – page 107

The annual limit noted in the second last bullet point is amended to:

£10,680

Mortgage loans – Interest only – Personal pension – page 108

The third and fourth bullet points are deleted and replaced by:

Individuals receive tax relief at their highest marginal tax rate on contributions of up to 100% of earnings (subject to a maximum annual allowance of £50,000 for the 2011 / 2012 tax year), or £3,600 whichever is greater – as noted earlier, the “carry forward rule” may be used as appropriate

Savings and investments – Individual Savings Accounts – page 119

The entire paragraph is replaced by:

An Individual Savings Accounts (ISA) is a form of investment, offering a tax-efficient way of holding cash deposits and stocks and shares. The annual ISA limit for 2011 / 2012 is £10,680 overall, of which £5,340 can be invested in a cash ISA, with a further £5,340 invested in a stocks and shares ISA. Alternatively, an investor could put the entire £10,680 into a stocks and shares ISA.

Retirement – page 120

The second sentence of the first paragraph is replaced by:

Most of us would not like to live on the income from the basic state pension, which is currently just over £102 per week.

Chapter 4

The Financial Services and Markets Act 2000 (FSMA) – page 131

The entire paragraph is replaced by:

FSMA also established various new bodies including the Financial Ombudsman Service, the Financial Services and Markets Tribunal (now replaced by the Upper Tribunal (Tax and Chancery Chamber)) and the Financial Services Compensation Scheme. Additionally, the legislation gave the FSA some new responsibilities, including the prevention of market abuse.

The Financial Services Authority (FSA) – FSA objectives – page 133

The first sentence is replaced by:

So what exactly is the FSA tasked with? Well, FSMA has given the FSA four statutory objectives:

The third objective (Public awareness) is deleted

The Financial Services Authority (FSA) – Financial stability – the FSA's role – page 134

The entire section is replaced by:

The third piece of financial services legislation since 2007 to respond to the banking and financial crisis, the Financial Services Act 2010, was enacted on 8th April 2010. This new Act amended FSMA and provided the FSA with a new objective to contribute to the protection and enhancement of the stability of the financial system, with the FSA being required to prepare a financial stability strategy setting out its approach to meeting this objective.

The Threshold Conditions

An additional condition is added:

Threshold Condition 2A - Appointment of claims representatives

If any person is seeking to carry on, or is carrying on, motor vehicle liability insurance business, that person must have a claims representative in each EEA State other than the UK.

Capital adequacy – the Capital Requirements Directive – page 145

Two new paragraphs are added at the end of this page (following the sentence ending ‘.... as set out in the FSA Handbook.’:

In September 2010, the Basel Committee on Banking Supervision agreed on detailed measures to further strengthen the regulation, supervision and risk management of the banking sector. This package of measures, known as Basel III, supplements the existing Basel II.

The Basel III rules increase previous minimum capital and liquidity requirements in light of the global financial crisis and are expected to be implemented progressively across the European Union, and beyond, between 2013 and 2019.

Future regulatory structure – pages 146/147

The entire section is replaced by:

As mentioned in the first chapter, the Conservative / Liberal Democrat Coalition Government will reform financial services and abolish the current regulatory regime. The FSA will cease to exist in its current form and, in 2013, it will be replaced by two new regulatory bodies:

- The Prudential Regulation Authority (PRA), which will be a subsidiary of the Bank of England. The PRA will be responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.
- The Financial Conduct Authority (FCA) will be responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA will also have responsibility for the prudential regulation of firms that do not fall under the PRA’s scope.

The FSA are currently seeking to ensure a smooth transition and will be changing their organisational structure to help them transform from one unitary regulator to the proposed new structure. Indeed these changes began in April 2011, when the Supervision and Risk business units were replaced with a Prudential Business Unit (PBU) and a Conduct Business Unit (CBU) within the continuing FSA.

Additionally, and in anticipation of legislation to create a Financial Policy Committee (FPC), an interim FPC was established at the Bank of England. The Committee will have the ability to look across the economy at macroeconomic and financial issues that may threaten stability and address the risks it identifies.

Legislation will establish the FPC as a committee of the Bank of England's Court of Directors, with a total membership of 12, comprising six executives of the Bank of England, and five members from outside the Bank. The FPC will also include a non-voting Treasury member. The FPC is chaired by the Governor of the Bank of England and is made up of independent members. It held its inaugural meeting on 16th June 2011 and will meet formally at least four times a year.

Independent Commission on Banking

In June 2010, the Chancellor of the Exchequer announced the creation of an Independent Commission on Banking (ICB), chaired by Sir John Vickers. The ICB was asked to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition, and to make recommendations to the government by the end of September 2011.

The Commission was tasked with formulating policy recommendations with a view to:

- reducing systemic risk in the banking sector, exploring the risk posed by banks of different size, scale and function
- mitigating moral hazard in the banking system
- reducing the likelihood and impact of firm failure
- promoting competition in both retail and investment banking while ensuring the needs of customers are addressed
- considering the extent to which large banks gain a competitive advantage from being perceived to be too big to fail.

Interim Report – April 2011

The ICB produced an interim report in April 2011, outlining its current and provisional views on possible reforms to improve stability and competition in UK banking.

Stability

In relation to the stability aspect, the IBC stated that making the banking system safer required a combined approach that:

- makes banks better able to absorb losses
- makes it easier and less costly to sort out banks that still get into trouble, and
- curbs incentives for excessive risk taking.

Broadly and simplistically, the IBC identified that the two ways to make banks safer were firstly by increasing their ability to bear losses, i.e. requiring them to hold a great deal more capital. The second solution could be by reforming their structure, i.e. ending “universal banking” and requiring retail banking and wholesale and investment banking to be carried out by separate banks – this would aim to isolate retail banking services and taxpayers from the risks of global wholesale and investment banking.

The IBC stated that their focus is on a combination of these capital and structural approaches, in moderate form.

Competition

The IBC made it clear that UK retail banking needs to be more competitive and that the damage to competition done by the financial crisis will not be remedied by the “selling-off” of RBS and Lloyds bank branches as required by the European Commission (EC).

The Commission’s view is that the following three opportunities to promote competition should be seized:

1. The number of Lloyds branch “sell-offs” could be increased beyond the EC requirement of 600 branches to create a more effective challenger to the incumbent banks
2. The ability of customers confidently to switch between banks could be greatly improved – together with better conditions for customer choice, this would make banks compete more effectively to deliver what customers want
3. Current reform of UK regulatory institutions must ensure that effective competition can at last be a central force in UK financial regulation.

Chapter 5

The FSA approach to supervision – page 161

A new section is added prior to the section entitled “The FSA tools of supervision”:

How the FSA supervise firms

As noted, the nature and extent of the supervisory relationship between the FSA and an individual firm depends on how much of a risk the FSA consider that a firm poses to its statutory objectives. The framework the FSA use to assess that risk is called 'ARROW' – the **A**dvanced **R**isk-**R**esponsive **O**perating frame**W**ork. An improved framework, ARROW II, was established in 2006.

Within ARROW II, there are two basic approaches used to supervise firms:

1. The ARROW Firms approach – used when assessing risks in individual firms (“vertical” supervision)
2. The ARROW Themes approach – used when assessing cross-cutting risks, i.e. those involving several firms or relating to the market as a whole (“horizontal” work).

One or other of these approaches, or a mixture of the two, is used to deal with risks in the most efficient and effective way. The level of supervisory intensity depends on the impact and probability scores which have been assigned to a firm (or group of firms).

Medium and high-impact firms

For medium and high-impact firms, the FSA coordinate their work through a relationship manager, who carries out a regular risk assessment (on a cycle of one to four years) and determines a risk mitigation programme proportionate to the risks identified. The precise volume and type of work undertaken by the FSA will depend on the size and riskiness of the firm concerned.

The FSA also apply baseline monitoring activities which are undertaken for all firms regardless of their impact scores. This involves analysing a firm's financial and other returns, and checking compliance with notification requirements. Breaches and other indicators of risk may be followed up by the supervisory team.

For high impact firms, a closer monitoring regime is applied. This is essentially a planned schedule of ARROW visits to the firm throughout the regulatory period. This allows the supervisory team to meet the firm’s senior management and control functions regularly.

Additionally, for high impact firms which are systemic in nature, the FSA has designed specific programmes of core work to assess the biggest risks on the prudential and conduct side of the business.

Low-impact firms

If a firm is assessed as low impact, it does not have a specific risk assessment or risk mitigation programme. These firms are monitored by a combination of baseline monitoring, action in response to risks identified by this information, thematic exercises to monitor compliance standards in a sector and work as part of sector-wide reviews.

Most small firms are considered to pose a low regulatory risk individually. In practical terms this means that, unlike larger firms, they do not have regular risk assessments and are usually required to send regulatory reports only twice a year. Small firms are given the Firm Contact Centre as a primary contact rather than a relationship manager.

However, small firms do pose a risk to the regulatory objectives collectively. To regulate over 20,000 small firms, the FSA have adapted their risk-based supervisory approach to address this collective risk. In this ARROW Themes approach, the FSA:

- Collect information from a variety of sources (e.g. regulatory returns)
- Analyse the data to identify collective risks
- Where necessary, investigate the matter further (e.g. questionnaires or targeted firm visits)
- Communicate the results of the research to the industry, e.g. on their website.

The ultimate aim is to change the behaviour of small firms in a way that improves standards across the industry so that there is improved consumer confidence in financial advice.

Enforcement – Purpose – page 164

The entire section is replaced by:

The FSA's effective and proportionate use of its enforcement powers plays an important role in the pursuit of its regulatory objectives of protecting consumers, maintaining confidence in the financial system, financial stability and reducing financial crime.

With the assistance of the enforcement powers afforded to it by FSMA and other relevant legislation, for example the Criminal Justice Act 1993, the Money Laundering Regulations 2007 and the Unfair Terms Regulations, the FSA pursues its objectives as follows:

- Bringing criminal prosecutions for insider dealing, misleading statements and practices offences and imposing financial penalties for market abuse, helps to maintain confidence in the financial system
- Imposing disciplinary measures helps to deter future rule breaches, ensures high standards of regulatory conduct and protects consumers. Additionally, its powers to vary a firm's permissions may be used, thus requiring firms to take urgent remedial action and, as a result, to protect the interests of consumers
- The FSA's use of its criminal prosecution powers under FSMA helps to reduce financial crime, such as the prosecution of insider dealing and breaches of prescribed regulations relating to money laundering acts as a deterrent

Using enforcement is also a particularly effective way, through the publication of enforcement outcomes, of raising awareness of regulatory standards.

Enforcement – Decision-making – FSA Enforcement Procedure – page 167

The two references to the Financial Services and Markets Tribunal are replaced by:

Upper Tribunal (Tax and Chancery Chamber)

Enforcement – Decision notice – page 169

The reference to the Financial Services and Markets Tribunal is replaced by:

Upper Tribunal (Tax and Chancery Chamber)

Enforcement – The Financial Services and Markets Tribunal – page 169

The entire section is replaced by:

Upper Tribunal (Tax and Chancery Chamber)

Where disagreements arise between the FSA and firms or individuals about the FSA's regulatory decisions, the matter can be referred to the Upper Tribunal (Tax and Chancery Chamber). The Upper Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007. The Tax and Chancery Chamber is the part of the Upper Tribunal which hears references arising from certain decisions and supervisory notices issued by the FSA. Examples of the kinds of decisions which may be referred to the Tribunal include:

- decisions to discipline authorised firms and approved persons
- decisions to vary a firm's permission to conduct certain or all regulated activities
- decisions relating to market abuse
- decisions to withdraw individual approval and
- decisions to make prohibition orders banning people from employment relating to certain or all regulated activities.

The Tribunal decides what action the FSA should take in relation to the matter referred to it, including issuing a Notice of Discontinuance if the case is not upheld.

Chapter 7

The Retail Distribution Review (RDR) – Professional standards – page 224

The entire section is replaced by:

The FSA want to raise standards of professionalism that inspire consumer confidence and build trust. In order to deliver this expectation, advisers will, by the end of 2012, need to:

- Hold a Statement of Professional Standing (SPS) issued by an FSA-accredited body
- Hold an appropriate qualification (equivalent of Qualifications and Credit Framework Level 4) and complete gap fill where required
- Complete some qualification gap fill depending on which qualification is currently held
- Observe the ethical requirements set out in the Statements of Principle and Code of Practice for Approved Persons (APER) – you should now refer back to chapter four to refresh your memory of the specific requirements

- Expect the FSA and the accrediting body that issues their SPS to be holding them to account for these new requirements.

FSA supervision

The FSA will supervise and enforce the new professional standards, which will be set through the FSA Handbook. This is designed to implement higher and consistent standards for individual advisers giving investment advice to retail customers about qualifications, continuing professional development (CPD) and ethics.

This new framework is expected to bring a number of benefits, including a more professional sector that consumers will want to engage with and trust and that those new entrants to the industry will want to become part of. There will also be a greater focus on setting, monitoring and enforcing the standards that advisers are required to achieve and a greater requirement for advisers to demonstrate both initial and ongoing competence, including ethical behaviour. There is to be greater accountability for meeting the higher standards arising from the FSA's more intensive approach to regulation.

It is anticipated that this simple framework for increasing professional standards is more likely to deliver the benefits of improved compliance levels and it will place a greater emphasis on the role of professional bodies.

Accredited bodies

Professional bodies will have an important role to play in raising standards, by ensuring that advisers attain and maintain qualifications, carry out appropriate CPD and behave ethically – all of which must at least comply with the FSA's minimum standards.

Professional bodies must meet the strict criteria in order to be FSA-accredited. These include:

- Acting in the public interest and further development of the profession
- Carrying out verification services
- Having appropriate system and controls in place to provide evidence to the FSA.

The criteria for accreditation are intended to ensure there are consistent standards for all advisers. These standards are an additional requirement to the responsibility the FSA already place on firms to ensure advisers are competent.

Accredited bodies will be subject to FSA oversight in relation to their investment advisers' activities. They will have a duty to supply the FSA with an independent audit report, both on application and on an annual basis, covering their arrangements for monitoring compliance with the FSA criteria.

Statements of Professional Standing (SPS)

As noted previously, advisers will be required to obtain and hold an annual SPS as evidence that they are meeting the standards. These will be issued by an FSA-accredited body.

The SPS will contain:

- The adviser's name
- The name and contact details of the accredited body and a named signatory
- The end date of verification (maximum of 12 months from date of verification)
- Confirmation that the adviser's qualification(s) have been verified
- Confirmation that the adviser has signed an annual declaration that states that he / she:
 - has kept their knowledge up-to-date; and
 - has adhered to standards of ethical behaviour.
- The adviser's individual reference number as it appears on the FSA Register
- A recommendation that the reader should check that an adviser is on the FSA Register, and how to do so.

Providing an SPS is a critical role and FSA-accredited bodies must agree to certain conditions on how they will check that advisers are achieving the required professional standards. Sole reliance is not however on the professional body, as firms must still ensure that their advisers meet the FSA's training and competence requirements, specifically on qualifications, CPD and ethical behaviour

Continuing professional development (CPD)

Effective and consistent CPD is of course an essential part of professional standards. Under the new regime, advisers must complete a minimum of 35 hours of relevant CPD each year, with at least 21 hours of structured learning. Structured learning activities may involve seminars, lectures, conferences, workshops or courses and completing appropriate e-learning.

As a matter of good practice, advisers will be expected to go through certain stages in planning and completing CPD, consistent with the FSA's focus on the relevance and learning outcomes of any activity. As CPD is not simply a collection of certificates of attendance, the FSA expects advisers to be able to demonstrate that they have learned and developed their knowledge and skills as a result of carrying out CPD activities.

Codes of ethics – page 225

The third paragraph is replaced by:

Initially, it was planned, as part of the RDR, that advisers would be required to adhere to a specific code of ethics. This was later shelved in favour of the APER requirements. So from January 2013, a Statement of Professional Standing will be a vital indicator for consumers that the person they are dealing with is subscribing to a code of ethics, has up-to-date knowledge, and is appropriately qualified.

Codes of ethics – Draft Code of Ethics for Investment Advisers – page 225

The entire section is deleted

Adviser qualifications – page 226

The final sentence of the third (final) paragraph is amended to:

An FSA Competence and Ethics Policy Statement does however state that there is a 30 month deadline for individuals to hold an appropriate qualification.

Investment Principles & Risk

Chapter 1

The role of the Bank of England – the UK Central Bank – page 9

A new sub-section is added as follows:

Future Central Bank roles

The Coalition Government has intimated that it will reform financial services and abolish the current regulatory regime. The FSA will cease to exist in its current form and in 2013 it will be replaced by two new regulatory bodies. One of the new bodies will be the Prudential Regulation Authority (PRA), which will be a subsidiary of the Bank of England. The PRA will be responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.

Additionally, and in anticipation of legislation to create a Financial Policy Committee (FPC), an interim FPC was established at the Bank of England. The Committee will have the ability to look across the economy at macroeconomic and financial issues that may threaten stability and address the risks it identifies.

Legislation will establish the FPC as a committee of the Bank of England's Court of Directors, with a total membership of 12, comprising six executives of the Bank of England, and five members from outside the Bank. The FPC will also include a non-voting Treasury member. The FPC is chaired by the Governor of the Bank of England and is made up of independent members. It held its inaugural meeting on 16th June 2011 and will meet formally at least four times a year.

Fiscal policy in the UK – Aims of the UK Government – pages 12 & 13

The entire section is replaced by:

Fiscal policy is directed firmly towards maintaining sound public finances over the medium term and, where possible, it supports monetary policy over the economic cycle. This, it is hoped, will provide the platform of stability necessary for achieving a government's central economic goals of high and sustainable levels of growth and employment.

In the aftermath of the last recession, the Labour Government brought in measures to boost the economy. These policy decisions played an important role in supporting monetary policy to limit the extent and duration of the recession. With the UK and other countries experiencing the deepest global recession for over 60 years, the then Government's immediate priority had to be supporting the economy in those difficult times. Measures included:

- The VAT rate was reduced to 15% between 1st December 2008 and 31st December 2009
- 3bn of capital spending was brought forward from 2010 / 2011 to 2009 / 2010.

In stark contrast to the reflationary policies introduced by the Labour Government, a necessarily different fiscal policy has been implemented by the Coalition Government in order to tackle the UK's rising public sector debt problem, which at 31st March 2011 was evidenced by:

- Public Sector Net Debt (PSND), colloquially known as the National Debt, stood at £903.4 billion, equivalent to 59.9% of Gross Domestic Product (GDP) – a dramatic increase from the £760.3 billion (52.8% of GDP) as at a year earlier.
- Public Sector Net Borrowing (PSNB), the measurement of the overall UK budget deficit, totalled £141.1 billion (9.6% of GDP) and was the second highest level of borrowing as a share of national income since the Second World War, surpassed only by the amount borrowed in 2009 / 2010 when net borrowing was £156.5 billion (11.1% of GDP). This fall was as a result of reductions in government spending and increases in VAT.

The strategy of the new Chancellor has been to implement an accelerated plan to reduce the deficit – a necessary precondition for sustained economic growth. The new Government had already identified £6.2 billion of savings in 2010 / 2011 and cancelled nearly £2 billion of projects which had been approved since 1st January 2010.

The Government has set a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period, this initially being 2015 / 2016. Given the rapidly rising debt, the fiscal mandate is also to be supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015 / 2016, hopefully ensuring that the public finances are restored to a sustainable path.

The two Coalition Budgets (June 2010 and March 2011) have added to the fiscal policy plans the Government inherited from Labour and represent a total consolidation of £126 billion per year by 2015 / 2016, of which 76% comes from spending reductions and 24% from net tax increases.

The Government's fiscal policy decisions are now based on independent forecasts for the economy and public finances, these being produced by the Office for Budget Responsibility (OBR) and, as a result of the above, the OBR projects that:

1. PSNB will decline from 9.6% of GDP in 2010 / 2011 to 1.5% of GDP in 2015 / 2016

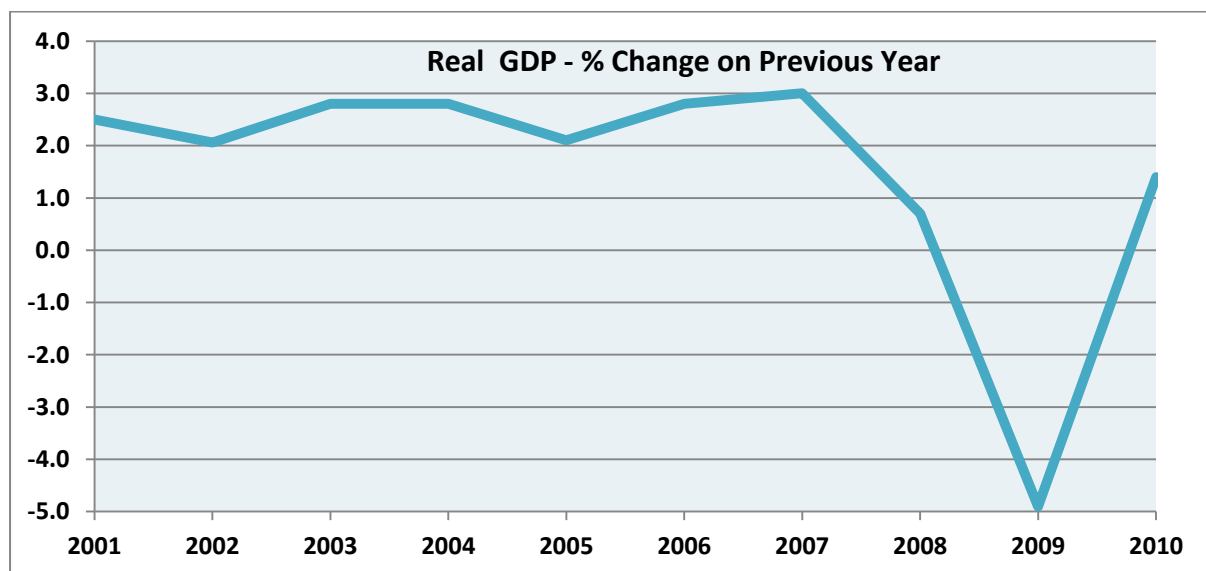
2. The cyclically-adjusted or ‘structural’ current deficit will be eliminated by 2014 / 2015 with a projected surplus of 0.4% of GDP in that year, rising to 0.8% of GDP in 2015 / 2016
3. PSND will peak at 70.9% of GDP in 2013 / 2014, before declining to 70.5% of GDP in 2014 / 2015 and 69.1% of GDP in 2015 / 2016.

Key economic indicators – Recent GDP performance – page 29

The first two paragraphs and graph are replaced by:

Following the cumulative impact of the succession of shocks that hit the global economy during 2007 and 2008 and, as credit conditions tightened and commodity prices squeezed real incomes, the UK economy started to shrink in the second quarter of 2008 and then shrank for another five quarters in a row.

We therefore experienced the deepest and longest recession since records began in 1955, before technically moving back into growth and out of recession in the final quarter of 2009, with growth of 0.4%. Three further consecutive quarters of very moderate growth were followed by a fall of 0.5% in the final quarter of 2010 which the Government largely attributed to the extreme weather conditions in December. The UK did however avoid a “double-dip” recession when GDP increased by 0.5% in the first quarter of 2011.



The economic impact – the economy – page 42

The bullet points within the second paragraph are replaced by:

- Between April 2010 and November 2018, women's retirement ages are increasing to 65 – there will be an accelerated increase between April 2016 and November 2018
- Between December 2018 and April 2020, retirement ages for men and women are increasing to 66
- Between April 2034 and April 2036, retirement ages for men and women are increasing to 67
- Between April 2044 and April 2046, retirement ages for men and women are increasing to 68
- Stakeholder pensions – are designed to encourage individuals to make their own retirement provision
- From October 2012, and on a phased basis, UK employers must automatically enrol employees into a “qualifying workplace pension scheme” – this auto enrolment could be into an existing company pension scheme if it meets certain criteria, or could be into NEST, a simple, low-cost pension scheme being introduced by the Government.

Chapter 2

Retirement – page 65

The third and fourth paragraphs are replaced by:

Tax planning remains important and while maximising income may be vital, those aged 65 and over must take care. If, for example, during the tax year 2011 / 2012, their income is over £24,000, their higher age-related allowance reduces by half of the amount they have over that limit (a reduction of £1 for every £2 of income over the limit). For example, someone aged 67, with an income of £24,500 (£500 over the income limit) will see their allowance of £9,940 fall by £250 to £9,690.

For most people aged 65 and over the allowance will never be less than the basic personal allowance of £7,475. However, anyone with income over £100,000 will see their personal allowance reduced by half of the amount (£1 for every £2) they have over that limit. If their income is large enough, the personal allowance can be reduced to nil.

Retirement – page 67

The first sentence of the first paragraph is amended to:

Broadly speaking, higher and additional rate taxpayers are more likely to require capital growth solutions, the alternative being to up to 50% tax on most income earned.

Chapter 3

Taxation of bank / building society interest – page 90

The entire section is replaced by:

Banks and building societies must take income tax off at source, at a rate of 20%, although non-taxpayers can register, via Form R85, to have their interest paid gross. Savings income is added to all other income and taxed after the tax-free allowances have been taken into account, for example the Personal Allowance.

The rate of income tax you pay on savings is worked out after any non-savings income has been taken into account. As such, if your non-savings income is less than the starting rate for savings limit (£2,560 in 2011 / 2012), or if savings and investments are your only source of income, then your savings income will be taxed at the 10% starting rate up to the limit. If however you already have non-savings income which takes you above the starting rate limit, then all of your savings will be taxable at the 20% basic rate, the 40% higher rate or the 50% additional rate, depending on your total income.

We fully examine the taxation of interest on savings within the Personal Taxation module.

Individual Savings Accounts (ISAs) – cash element – page 91

The sixth bullet point is amended to:

Maximum deposit of £5,340 per fiscal (tax) year

Chapter 4

Enterprise Investment Scheme (EIS) – Tax incentives – page 140

The first bullet point is amended to:

For investments made after 6th April 2011, an investor can reduce his income tax liability by an amount equal to 30% of his share subscription

Taxation of company dividends – page 151

The first paragraph is replaced by:

The tax position for dividends earned on equity investments is as follows during 2011 / 2012:

Savings rate taxpayers	10%
Basic rate taxpayers	10%
Higher rate taxpayers	32.5%
Additional rate taxpayers	42.5%

The last sentence of the third paragraph is replaced by:

Higher rate taxpayers pay a total of 32.5%, so must pay an additional 22.5% of the gross amount received, whilst additional rate taxpayers (those who have taxable income exceeding £150,000) are required to pay 42.5% in total, i.e. an extra 32.5%.

Taxation of gains – page 151

The entire section is replaced by:

Any gains (profits) made on the disposal of equities are potentially subject to Capital Gains Tax (CGT). If however an individual's total chargeable gains are less than the annual exempt amount, then no CGT will be payable.

For 2011 / 2012, the annual exempt amount is £10,600, with the two main rates of CGT being, 18% and 28%, with the rate to be paid by individuals dependent upon the amount of their total taxable income. The lower rate of 18% is however applicable only to basic rate taxpayers, whilst any gains made by trustees or personal representatives of deceased persons are charged at 28%.

Chapter 5

Non-Retail Funds (Qualifying Investor Schemes) – page 171

The entire section is replaced by:

These funds are open only to “qualified investors”, which in client categorisation terms, will be eligible counterparties or professional clients. Such clients are likely to include corporates and other institutional investors such as pension funds and charities, or sophisticated individual investors who regularly invest significant sums and can be expected to understand the risks involved in a wide range of investments.

These funds can borrow up to 100% of their net asset value.

Individual Savings Accounts (ISAs) – Stocks and shares ISAs – limits – page 193

The entire section is replaced by:

For the year 2011 / 2012, individuals are permitted to subscribe up to a maximum of £10,680 in an equity ISA. If preferred, up to £5,340 can be put into a cash ISA, with the balance of up to £5,340 being invested in the equity element.

Importantly, for example, if an investor withdraws £1,500 from their fully subscribed stocks and shares ISA, they cannot reinvest that money again later in that tax year as their limit has already been used up.

From 2012 / 2013, the annual ISA limit will be linked to rises in inflation as measured by the CPI. The CPI for September in each preceding year will be used and the increased limit will be rounded to £120 to allow for regular monthly payments to be made. If the CPI is negative the limit will be unchanged. Following indexation the cash ISA limit will continue to be half the value of the stocks and shares ISA limit.

Individual Savings Accounts (ISAs) – page 193

A new section is added prior to the ‘ISA investment components’ section

Junior ISAs

The Government intend to launch a Junior ISA for children who missed out on a Child Trust Fund (CTF) account. The new Junior ISA should be available from autumn 2011, and will provide parents with a simple and tax-free way to save for their child’s future.

All UK resident children under 18 who do not have a CTF will be eligible for a Junior ISA and this will include children who were born before the start of CTF eligibility, in September 2002. Eligibility for the new account will be backdated, so that no child born after the end of CTF eligibility on 2nd January 2011 will miss out on the chance to have one of the accounts.

Early details of the new Junior ISA are that:

- All investment growth and returns will be tax-free
- Funds placed in the account will be owned by the child and will be locked in until the child reaches adulthood
- Investment will be available in cash and / or stocks and shares
- Yearly contributions will be capped – possibly at £3,000
- There will be no Government contributions into the account.

Individual Savings Accounts (ISAs) – Where and how to buy – page 195

The first two sentences of the third paragraph and the accompanying table are amended to:

A useful tool for either category of investor would be the Comparative Tables available via the Money Advice Service website. The website is a free and independent service which was set up by government and is funded by a levy on the financial services industry.

Provider	Product Name	Illustrated Fund	Available From	Charges & Deductions	Charges in early years	Transfers in	Transfers Out	Stakeholder
ABC plc	ISA	Tracker Fund	Direct, Single Tied Adviser	£799	£431	Standard charges	Free	No

Individual Savings Accounts (ISAs) – ISA transfers – page 198

A new paragraph is inserted prior to the final paragraph as follows:

Revised cross-industry Cash ISA to Cash ISA Transfer Guidelines were implemented on 1st January 2011 which mean that the maximum time taken for a typical Cash ISA to Cash ISA transfer has been cut from 23 to 15 business days. The new provider will also backdate interest to the first day where interest no longer accrues on the funds being transferred from the customer's existing Cash ISA. Banks' performance for meeting the new transfer timescale will be monitored by the British Bankers' Association, with a summary of the results provided to the FSA.

Chapter 6

Commercial property and investment considerations – Tax – page 229

The second paragraph is amended to:

It's worth remembering that commercial property transactions are also subject to Stamp Duty Land Tax, as follows:

Purchase Price	SDLT Charged
Up to £150,000 (and the annual rent is under £1,000)	0%
Up to £150,000 (and the annual rent is £1,000 or more)	1%
£150,001 up to £250,000	1%
£250,001 up to £500,000	3%
£500,001 and above	4%

Purchased Life Annuities (PLAs) – Capital protected (value-protected) – page 245

The entire section is replaced by:

With this annuity, when death occurs the life company will pay an “annuity protection lump sum death benefit” to the estate. This is equivalent to the shortfall between the gross payments already made and the purchase price less a “special lump sum death benefit” tax charge of 55%. So, for example, if a £20,000 lump sum is invested and the investor dies having received only one payment of say £200, a payment of £8,910 (£19,800 less £10,890) will be forthcoming from the life company.

Chapter 7

Types of risk – page 268

Prior to the fifth paragraph which commences ‘.....More generally, we....’), add a new subsection as follows:

Shortfall Risk

Shortfall risk simply means the risk of not achieving your investment target. This could happen if insufficient risk was taken on in order to receive the potentially higher rewards – alternatively, perhaps too much risk was taken and the portfolio fell in value.

For example, someone who will be retiring in 25 years and who puts all their capital into cash-based investments may not amass enough capital to produce their desired retirement income. Conversely, investing wholly in very high risk assets could mean a shortfall if the individual portfolio holdings perform badly.

Chapter 8

General objectives – Income – page 298

The table is updated as follows:

Asset Class	Income Portfolio %
UK Shares	40.0
International Shares	15.0
Bonds	35.0
Cash	5.0
Hedge funds	2.5
Commercial property	2.5
TOTAL	100

Collective investments and diversification – Providers – page 306

The final sentence is amended to:

For 2011 / 2012, this is £10,680 for equity-based investments.

Portfolio performance evaluation – page 314

The Income Column within the table is amended as follows:

Asset Class	Income Portfolio %
UK Shares	40.0
International Shares	15.0
Bonds	35.0
Cash	5.0
Hedge funds	2.5
Commercial property	2.5
TOTAL	100

Personal Taxation

Although the Budgets of June 2010 and March 2011 made a number of changes to personal and business taxation, the principles of the UK's taxation system have remained unchanged. For that reason, these updates simply confirm the various allowances, rates and other key amendments applicable to the fiscal year 2011 / 2012.

Chapter 1

Tax rates – page 16

The rates table is updated as follows:

The 2011 / 2012 rates and bands are as follows.

Income Tax band	Income Tax rate on non-savings income	Income Tax rate on savings	Income Tax rate on dividends
£0 to £2,560 Starting rate for savings	N/A	10%	N/A
£0 to £35,000 Basic rate	20%	20%	10%
£35,001 to £150,000 Higher rate	40%	40%	32.5%
Over £150,000 Additional rate	50%	50%	42.5%

Allowances and deductions – page 17

The 2011 / 2012 allowances are as follows.

Income Tax Allowances - 2011 / 2012	Amount	Income limit
Basic Personal allowance*	£7,475	£100,000
Personal allowance for people aged 65-74*	£9,940	£24,000
Personal allowance for people aged 75 and over*	£10,090	£24,000
Married couple's allowance for people aged 75 or more**	£7,295	N/A
Minimum amount of age-related married couple's allowance	£2,800	N/A
Blind person's allowance	£1,980	N/A
* Allowance is reduced by £1 for every £2 above the income limit		
** Relief restricted to 10% of allowance		

Personal Allowance – page 17

The second and third paragraphs are replaced by:

The basic personal allowance for income tax is gradually reduced to nil for individuals with “adjusted net incomes”.

Adjusted net income is the measure of income that is used for the calculation of the income-related reductions to the personal allowance, so it applies to those aged 65 and over and to those who have income above £100,000 (regardless of age). It is calculated by taking the total of an individual's income and then adjusting it to reflect, for instance, pension and Gift Aid contributions – the amount of the allowance is then reduced by £1 for every £2 above the relevant income limit.

Example

Diane is aged 76. For 2011 / 2012, her total income is made up of pensions of £25,250. She also pays £1,000 in Gift Aid contributions (grossed-up to £1,250). This is deducted from her total income to give her a net adjusted income of £24,000. As this does not exceed the £24,000 income limit, she will not need to have her personal allowance reduced.

Now we look at a straightforward example of how the personal allowance works.

Treatment of bank / building society interest – page 23

The first paragraph is amended to:

Most taxable income, up to the higher rate threshold, is taxed at the basic rate of 20%, except that there is a 10% starting rate for savings income only, with a limit in 2011 / 2012 of £2,560.

Enterprise Investment Scheme (EIS) – page 37

From 6th April 2011, tax relief of 30% (previously 20%) can be claimed up to that maximum investment figure, provided that this tax relief does not exceed the amount of income tax the investor is actually liable to pay

Pension contributions – employed – page 41

The third and fourth paragraphs after the example are amended to:

Although there is no limit on the amount that can be saved in a pension scheme, tax relief at an individual's marginal rate of tax is available only on pension contributions up to 100% of annual earnings, although this is capped by the annual allowance. For the tax year ending 5th April 2012, the allowance which includes both the employee's and the employer's contribution is £50,000.

If an individual's pension saving exceeds the annual allowance, there is a tax charge, known as an Annual Allowance Charge (AAC), on the amount exceeding the annual allowance. The AAC is calculated using the individual's marginal rate of tax for the tax year in which the pension input period (PIP) ends. A PIP normally runs for a year, but it need not be exactly the same as the tax year. It's also possible to have more than one PIP, e.g. a person could have a different PIP for each scheme that they are a member of.

As an example of an AAC, and ignoring the carry forward facility, if an individual pays tax at a rate of 50%, and contributes £60,000 into a pension scheme, or combination of pension schemes, he or she is subject to an income tax charge of 50% on the £10,000 that is in excess of the £50,000 limit.

Individual Savings Accounts (ISAs) – page 42

The maximum total investment during 2011 / 2012 is £10,680, up to £5,340 of which can be saved in cash.

Chapter 2

CGT exempt amount – page 68

For 2011 / 2012, the annual exempt amount is £10,600.

Entrepreneurs' relief – page 69

From 6th April 2011, the first £10 million of gains on a disposal will suffer CGT at 10%, this limit being a lifetime allowance covering multiple disposals.

Taxation of trusts – CGT rate and the annual exempt amount for trusts – page 79

This section amended to:

The rate of CGT for the tax year 2011 / 2012 is 28%.

The annual exempt (tax-free) amount is currently £5,300 for most trusts, although there is an exception to this where a trust set up for a beneficiary who is disabled. In these cases, the annual exempt amount is £10,600, the same as for individuals.

Chapter 3

IHT – IHT threshold – page 90

The first paragraph is amended to:

The threshold for 2011 / 2012 is £325,000, this being the same as the level during the previous fiscal year. This level will be frozen until April 2015, after which point the threshold amount will be increased in line with the Consumer Prices Index.

IHT – Rates of charge – page 92

A third rate of charge is added as follows:

At 36%, where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity – this rate applies where death occurs on or after 6th April 2012.

Chapter 4

National Insurance Contributions (NICs) – Contribution rates and allowances – page 115 onwards

The main rates and allowances applicable to 2011 / 2012 are:

National Insurance Contributions (NICs) - £ per week (unless stated otherwise)	2011 / 2012
Lower earnings limit, primary Class 1	£102
Upper earnings limit, primary Class 1	£817
Upper accrual point	£770
Primary threshold	£139
Secondary threshold	£136
Employees' primary Class 1 between primary threshold and upper earnings limit	12%
Employees' primary Class 1 rate above upper earnings limit	2%
Class 1A rate on employer provided benefits	13.8%
Employees' contracted-out rebate	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	5.85%
Married women's rate above upper earnings limit	2%
Employers' secondary Class 1 rate above secondary threshold	13.8%
Employers' contracted-out rebate, salary-related schemes	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%
Class 2 rate	£2.50
Class 2 small earnings exception	£5,315 pa
Class 3 rate	£12.60
Class 4 lower profits limit	£7,225 pa
Class 4 upper profits limit	£42,475 pa
Class 4 rate between lower profits limit and upper profits limit	9%
Class 4 rate above upper profits limit	2%

Home Responsibilities Protection – Changes from April 2010 for parents and carers – page 121

A fourth bullet point is added as follows:

From 6th April 2011, grandparents who look after any of their grandchildren who are under 12 years of age.

Value Added Tax (VAT) – Registering for VAT – page 127

The registration threshold for 2011 / 2012 is £73,000.

Value Added Tax (VAT) – Registering for VAT – page 128

The de-registration threshold for 2011 / 2012 is £71,000.

Corporation tax rates – page 133

The rates for 2011 / 2012 are as follows:

A Lower rate (“small profits” rate) of 20% of profits up to £300,000 for the vast majority of companies

An Upper rate (“main” or “full” rate) of 26% of profits in excess of £1,500,000, reducing to 25% from 6th April 2012.

The Standard Fraction applicable to Marginal Relief is 3/200ths.

Pensions, Retirement Planning & Financial Protection

Chapter 1

The role of Government – 2000 to date – page 10

The seventh paragraph is amended as follows:

The coalition government have confirmed that the employment default retirement age, currently age 65, will be abolished from 1st October 2011. This means that employers will no longer be able to require employees to retire at age 65.

Additionally, the government has published proposals that will mean that from December 2018, the State Pension age for both men and women will start to increase so that it reaches age 66 by April 2020. Furthermore, between April 2034 and April 2036, retirement ages for men and women are increasing to 67 and between April 2044 and April 2046, the retirement ages for men and women will further increase to 68.

The National Employment Savings Trust (NEST) – page 14

The existing bullet points in the final paragraph are replaced by:

- Low contribution charges of 1.8% and an annual management charge of 0.3% of the total fund each year
- The individual's retirement pot will be automatically invested in a NEST Retirement Date Fund which are designed to suit the needs of most members and are based on the year of expected retirement (a lifestyling approach will be adopted to expose retirement pots to the right amount of investment risk at each stage of an individual's working life)
- An annual gross contribution limit of £4,200 a year – this limit will be reviewed and is likely to increase in line with growth in earnings across the UK
- The NEST Pension will operate as a centralised scheme run by a not-for-profit trustee corporation called NEST Corporation – like other company schemes it will be regulated by the Pensions Regulator.

State retirement age – pages 18 & 19

The entire section is replaced by:

State Pension age is the earliest age at which you can claim your State Pension.

The retirement dates for men and women have changed on numerous occasions over the last few years due to shifts in government policy. The current legislative position is that:

- The state pension age for men is 65
- On 6th April 2010, the state pension age for women started to increase gradually from 60 to 65 – this process is happening between April 2010 and April 2020.

Existing legislation will also increase the state pension age for men and women to 66 between 2024 and 2026, to 67 between 2034 and 2036 and to 68 between 2044 and 2046.

Proposed changes

Further changes were announced in the Government's Spending Review of 2010, these now being encompassed within the Pensions Bill 2011. If these are approved by Parliament, the following changes will take place:

- Between April 2010 and November 2018, the retirement age for women will increase to 65 – there will be an accelerated increase between April 2016 and November 2018
- Between December 2018 and April 2020, retirement ages for men and women will increase to 66
- Between April 2034 and April 2036, retirement ages for men and women will increase to 67
- Between April 2044 and April 2046, retirement ages for men and women will increase to 68.

It's also anticipated that the Government will accelerate the rises to 67 and 68.

Building up basic State Pension – Employment – pages 20 & 21

The entire Employees section is replaced by:

Employees

Employees can earn £139 a week (2011 / 2012) before paying any contributions at all – this is known as the “primary threshold”. However, as long as earnings exceed £102 a week, an employee can still build up their entitlement to a State Pension and certain other benefits – this £102 limit is known as the “lower earnings limit”.

Employees pay Class 1 National Insurance contributions are made. The rates for the 2011 / 2012 tax year are as follows:

- You pay 12% of the amount you earn between £139 a week and £817 a week (the upper earnings limit) – a lower percentage rate of 10.4% applies if an employee is a member of their employer’s contracted-out pension scheme
- If you earn more than £817 a week, you also pay an extra 2% on all earnings over that amount.

Employers

Employers pay Secondary Class 1 contributions and these are calculated at 13.8% of an employee’s total earnings above the earnings threshold, including all earnings above the upper earnings limit. Employers who have their own occupational pension schemes and are thus contracted out of the State Second Pension Scheme are given a rebate of 3.7% for final salary schemes and 1.4% for money purchase schemes.

Building up basic State Pension – Self Employed – page 21

The entire section is replaced by:

For the year 2011 / 2012, the self-employed pay Class 2 contributions at a flat rate of £2.50 a week if their earnings exceed £5,315 per year. For those with earnings below this level, known as the small earnings exception limit, contributions are not required although an application must be made to HMRC in order to qualify for the exception.

Class 4 NICs may also be paid dependent on the taxable profits made, but these contributions do not count towards benefit entitlements.

Building up basic State Pension – *Voluntary Contributions (Class 3)* – page 21

The final paragraph is amended to:

The NICs which can be paid voluntarily are normally Class 3 contributions, but for the self-employed or for those living abroad, it may be possible to pay Class 2 contributions voluntarily instead. Contributions are paid at a flat weekly rate which is £12.60 in 2011 / 2012 and £2.50 a week for Class 2 contributions.

Effect on contributions – employees & self-employed – page 25

The two sections are replaced entirely by:

Effect on contributions – employees

If an employee and her employer hold a valid certificate of election, a reduced rate of Class 1 contributions applies. The amount payable depends on earnings, with the reduced rate for the 2011 / 2012 tax year being:

- On earnings between £139 and £817 a week, the rate is 5.85% (compared to the full rate of 12%)
- On earnings of more than £817 a week, an extra 2% is payable (this is the same rate as for full Class 1 contributions)

Effect on contributions – self-employed

For self-employed women who hold a valid certificate of election, there is no requirement to pay any Class 2 contributions at all.

If however annual taxable profits are between £7,225 and £42,475, then Class 4 contributions at the normal 9% on those profits is payable along with a further 2% on any additional profits over £42,475.

State Second Pension Scheme – pages 26 & 27

The 2nd and subsequent paragraphs of this section are replaced entirely by:

Specifically, as well as providing an additional state pension for the employed, S2P gives an additional state pension based on earnings of £14,400 (2011 / 2012) to:

- Those with earnings above £5,304 (the lower earnings level) but below £14,400
- Carers with no earnings or earnings below £5,304 for any year that they:
 - receive child benefit for a child under 12 or
 - are looking after someone with a qualifying disability for at least 20 hours a week, or
 - have an entitlement to Invalid Care Allowance (even if the benefit is not claimed because of entitlement to another greater benefit)
- Those who are entitled to long term incapacity benefit or severe disablement allowance, provided that they have worked for and paid Class 1 NICs for at least one tenth of their working life since 6th April 1978
- Registered foster parents.

S2P is not available to those earning less than £5,304, the unemployed, students, those caring for children older than 12 and the self-employed.

Since 6 April 2010 – pages 27 & 28

The entire section is replaced by:

The Upper Accrual Point (UAP) is unchanged from the point it was introduced on 6th April 2009. From that date, employers and employees with occupational pension schemes contracted-out of S2P receive contracted-out rebates on earnings between the LEL and the UAP. Employers and employees pay NICs at 13.8% and 12% respectively on earnings between the UAP of £40,040 and upper earnings limit (UEL) of £42,475 during the 2011 / 2012 tax year.

From 6th April 2010, Band 2 (10% band) and Band 3 (20% band) were merged so that all earnings between the low earnings threshold and the UAP will accrue additional pension at a rate of 10%. From a future date, likely to be April 2012, the Band 1 (40% band) will be replaced by a weekly flat-rate accrual of around £1.65 (£85.80 annually). The 10% accrual component will be withdrawn at some point in the future, leaving a wholly flat-rate benefit.

The bands based on the 2011 / 2012 tax year are set out below:

Band 1 covers earnings from the LEL (£5,304) up to the LET (£14,400). Benefit accrues at a rate of 40% (twice what SERPS provided). As previously mentioned, those earning less than the LET are treated as though they had earned the LET.

Band 2 earnings between the LET (£14,400) and the UAP (£40,040). The accrual rate is 10% for earnings within this band.

The significance of the introduction of the Upper Accrual Point (UAP) which replaced the UEL as the higher threshold for earning S2P is that people who earn above £40,040 and contract-out, say via a personal pension, will pay extra national insurance contributions, yet see no increase in the rebate paid into their pension scheme.

Contracting out – page 28

The first paragraph is replaced by:

Employed earners with annual earnings above the lower earnings level (£5,304 in 2011 / 2012) although unable to leave the basic State Pension scheme can, if they choose, elect to leave S2P and join a private pension scheme instead – this is contracting out.

Pension Credit – page 30

The first sentence of the second paragraph and the first example are amended to:

The Guarantee Credit gives those on low incomes at least £137.35 a week if single and at least £209.70 for those with a spouse or civil partner.

Jackie is 62 and owns her own home. She has a State Pension of £106.50 a week and no other income. Her savings are £5,000.

Jackie gets Guarantee Credit of £30.85 a week, bringing her total weekly income up to £137.35. Her savings of £5,000 are disregarded as they are below £10,000. Because Jackie is 62, she only gets Guarantee Credit.

When she is 65, she may also get Savings Credit.

Pension Credit – page 30

The final two paragraphs and the second example are amended to:

The Savings Credit is for people aged 65 and over and is intended to reward people who have saved for their retirement. It's possible to get the Savings Credit on its own or with the Guarantee Credit. The point at which an individual starts to build up Savings Credit is £103.15 for a single person and £164.55 for a couple.

To be able to get this credit, a single claimant's income must not exceed £188, with a couple (one of whom is over 65) having to have income below £277 to qualify. Income includes any savings income as with the Guarantee Credit. This credit provides extra money of up to £20.52 if single, or £27.09 a week for a couple, although these amounts may be more if the claimant is disabled, has caring responsibilities or certain housing costs, such as mortgage interest payments.

John and Jill are both 75 and have £218.90 a week as follows:

- Basic State Pension (Mary) £102.15
- Basic State Pension (Frank) £61.20
- Personal pension (Mary) £51.55
- Savings of £12,000 (this counts as £4 of income – every £500 of savings over £10,000, equates to £1)

As John and Jill's income is over £209.70, they cannot get Guarantee Credit, but they are entitled to Savings Credit.

Chapter 2

Pension Protection Fund – page 46

The first paragraph is replaced by:

This means a starting level of compensation that equates to 100% of the pension in payment immediately before the employer went out of business. That part of the compensation that is derived from pensionable service on or after 6th April 1997 is increased each year in line with the Retail Prices Index (RPI), although from 1st January 2012, the increase is linked to the Consumer Prices Index (CPI), with increases capped at 2.5%. It should be noted that this increase could potentially result in a lower rate of increase than the scheme would have provided.

Pension Protection Fund – page 46

The first sentence of the third paragraph and the Example are amended to:

This compensation is subject to an overall annual cap, which, at April 2011, equated to £29,897.42 at age 65 after the 90% has been applied (the “gross” cap is therefore £33,219.36). This cap is adjusted according to the age at which compensation comes into payment. In effect, this means that when a pension is payable from an age earlier than 65, a factor is applied to reduce the maximum amount payable.

Tom, aged 60, is to receive PPF compensation now. This is calculated using a factor of 0.9080275 of the “gross cap”.

His maximum payment is therefore 90% of £30,164.09, or £27,147.68.

The sum is reduced as Tom will be in receipt of a pension for a longer term.

Pension Protection Fund – page 46

The first paragraph following the Example is replaced by:

Once compensation is in payment, the part that derives from pensionable service on or after 6th April 1997 is increased each year in line with the RPI (CPI from 1st January 2012), capped at 2.5%. Again, this could result in a lower rate of increase than the scheme would have provided.

Financial Assistance Scheme – page 47

The final two sentences of the fourth paragraph and the Example are amended to:

FAS make payments on top of any pension received from the company scheme, up to a combined total of £30,297 a year for anyone whose entitlement begins between 1st April 2011 and 31st March 2012. This cap applies to any pension that is, or will be, paid.

Ethel was due a pension of £35,000 a year from her company scheme.

The scheme wound up in 2002 and could not pay anything to any employee.

The FAS worked out 90% of £35,000 (£31,500), but because of the cap, it cannot pay more than the cap amount, i.e. £30,297.

Chapter 3

Income options – page 70

The first paragraph is replaced by:

Income from a pension arrangement can be provided in various forms and we initially look at the straightforward annuity options.

We then consider the Unsecured and Alternatively Secured Pensions which were available until 5th April 2011 and, importantly, we outline the changes to these options which are contained within the Finance Bill 2011 and which are expected to become legislation in the summer of 2011. When the Bill receives Royal Assent, its provisions will be backdated to 6th April 2011 where relevant.

Unsecured pension – page 72

Immediately following the boxed text and prior to the ‘Alternatively secured pension’ section, insert the following:

Finance Bill 2011 – Changes to Unsecured Pensions

From 6th April 2011, unsecured pensions are called drawdown pensions.

As before, a drawdown pension comes in two basic forms:

- Income withdrawal, where the pension is paid directly from the funds in the pension scheme
- A short-term annuity where some of the drawdown pension fund is used to buy an annuity contract from an insurer – this will pay a certain income each year for a fixed period of up to five years.

The income withdrawal option of a drawdown pension is split into two types, being capped drawdown and flexible drawdown.

Capped drawdown works in the same way as an unsecured pension did prior to 6th April 2011.

There is a maximum amount of pension that can be taken each year, and this amount is regularly recalculated. However, the maximum amount that can be drawn down as income from a pension fund will be 100% of an equivalent amount that could be provided by purchasing a lifetime annuity, this being reduced from the 120% maximum which was available under the unsecured pension facility. Also, reviews for capped drawdown are now every three years for those under 75 rather than the previous five year timeframe. From age 75 capped drawdown limits will be reviewed every year.

Those already in an unsecured pension prior to 6th April 2011 will be switched to capped drawdown from that date, although the reduced maximum income limits will not apply until the next review date for the drawdown pension. At a capped drawdown review, the maximum amount of income that can be taken from the pension fund is recalculated. This review will take account of the reduction in the maximum amount from 120% to 100% of an equivalent annuity and will be calculated using the fund value and interest rates at the time of the review.

Flexible drawdown allows someone to draw income greater than the maximum income allowed under capped drawdown from their pension fund.

The new legislation means that provided a person has at least £20,000 a year secure pension income (the minimum income requirement) they will no longer be subject to the maximum income limit under capped drawdown and will be able to draw down any amount from their fund. For clarification, secure pension income refers to pension income for life, e.g. state pension, a scheme pension or a lifetime annuity.

Amounts drawn down under flexible drawdown are classified as pension income and are taxed at the person's marginal rate of income tax. It should also be noted that in order to take flexible drawdown, all tax-relievable pension contributions or benefit accrual under pension arrangements must have stopped permanently before the tax year in which the person first takes flexible drawdown and cannot recommence under any new pension arrangements in the future.

A tax-free pension commencement lump sum can still be taken when a person starts to draw their pension, but there is no longer a requirement that it must be paid before the age of 75. For most people, the maximum amount is the lower of 25% of the value of the pension that is being put into payment or 25% of the available standard lifetime allowance.

Budget - June 2010 – page 75

The entire section is deleted and replaced by:

Finance Bill 2011 – Changes to Alternatively secured pension

The new legislation abolishes the requirement to purchase an annuity or scheme pension at any set age with effect from 6th April 2011 and so the alternatively secured pension disappears from the pension landscape. Instead the capped drawdown facility, as outlined above, can be used from age 55 throughout life.

In terms of transition, anyone already receiving an alternatively secured pension, which requires them to draw an income of between 55% and 90% of an equivalent annuity, will from 6th April 2011, come under the new capped drawdown rules, which allow an individual to draw an income of between 0% and 100% of the equivalent annuity.

Lifetime allowance – page 75

The first three paragraphs, including the table are replaced by:

The pension rules set a limit on the total amount of pension savings (including any pension life cover) that can be used to provide benefits when a person retires or dies. The lifetime allowance is therefore the maximum amount of pension and / or lump sum that a person you can get from their pension schemes that benefit from tax relief.

Although there is no limit on the amount of benefits that a pension scheme can pay, if a pension scheme provides benefits exceeding an individual's lifetime allowance, an extra tax charge is payable on the amount over that allowance. This tax charge is called the lifetime allowance charge.

This lifetime allowance limit for the first year after A-day was set at £1.5m. The allowance then increased annually until it reached £1.8m for the tax year 2010 / 2011 year. The limit for 2011 / 2012 remains at that level, but for 2012 / 2013, it is reduced to its original level of £1.5m.

The tax rules allow a person to take any amount exceeding the lifetime allowance as a pension, lump sum, or a mixture of pension and lump sum. Importantly, where benefits exceed the limit, the excess amount, if taken as income, are taxed at 25%, with the subsequent regular pension income then being subject to income tax in the normal way. If the excess amount is taken as a lump sum, a 55% tax charge is imposed.

Page 76 – after the Enhanced protection section

Add a new section as follows:

Fixed Protection

Given the reduction in the lifetime allowance from 2012 / 2013, there is an option for those who do not have primary or enhanced protection to apply for a new type of lifetime allowance protection called “fixed protection”. Fixed protection preserves the lifetime allowance at the 2011 / 2012 level of £1.8m.

Applying for fixed protection is an important consideration for those who already have pension funds worth more than £1.5m (the 2012 / 2013 limit), or could be worth more than £1.5m by the time retirement benefits are taken. However, applications must be made by 5th April 2012 and, as a condition of fixed protection, no further contributions can generally be made after that date.

Fixed protection is not available where an individual is already entitled to enhanced or primary protection.

Annual allowance – pages 76 & 77

The entire section is replaced by:

Pre A-Day, there were fairly severe restrictions on how much could be paid into pension schemes. For example, under a defined benefit occupational scheme, employees could only contribute, with tax relief, up to 15% of earnings up to the Earnings Cap (£105,600 for 2005 / 2006), whilst individuals paying into a personal pension plan could receive tax relief on contributions up to the higher of £3,600 a year or a percentage of capped earnings, which varied according to age.

Now, although there is no limit on the amount that can be saved in a pension scheme, there is an annual allowance which is the maximum amount of pension saving that a person can have each year that benefits from tax relief. This includes pension contributions made by the individual plus any made on their behalf, e.g. an employer.

The annual allowance limit was originally set at £215,000 and increased annually until 2010 / 2011, when it was £255,000. Following the general fiscal tightening by the coalition government, for 2011 / 12 the amount of the annual allowance is £50,000, this amount including the basic rate tax relief added by HM Revenue & Customs. This limit is fixed until 2015 / 2016.

If however the total pension saving is more than the annual allowance, then a tax charge on the amount over the annual allowance is payable – this is called the annual allowance charge.

The effect of this charge is to remove tax relief on any pension savings over the available annual allowance. The amount payable depends on the rate at which tax relief has effectively been given on the excess pension savings, which in turn depends on how much taxable income a person has and the amount of their excess pension savings.

To ascertain the amount of an individual's annual allowance charge, it's necessary to add the amount of any excess pension savings to the amount of income that tax was actually paid. The amount of pension saving:

- Over the higher rate limit will be taxed at 50%
- Over the basic rate limit but below the higher rate limit will be taxed at 40%
- Below the basic rate limit will be taxed at 20%

Camerina has £10,000 excess pension saving on which she has to pay the annual allowance charge. She also has £142,000 income that she has to pay tax on. The total of her taxable income and excess pension saving is therefore £152,000.

For the purpose of this example the higher rate limit is £150,000. The basic rate limit is £35,000.

£2,000 of Camerina's excess pension saving is above the £150,000 higher rate limit. £8,000 of her pension saving is above the basic rate limit but below the higher rate limit. Camerina's tax charge is calculated as:

£2,000 @ 50% = £1,000

£8,000 @ 40% = £3,200

Camerina's annual allowance charge is £4,200.

Carry Forward Facility

Provided that an individual is a member of a registered pension scheme, it's possible to have unused annual allowances carried forward from the previous three tax years to the current tax year. The unused annual allowance is then added to the current year's annual allowance to give the total amount of available annual allowance

Rob has total pension savings of £85,000 for the tax year – £35,000 more than the £50,000 annual allowance for the year.

However, in the three previous tax years his pension saving was £15,000 below the annual allowance for each tax year. This means he has £45,000 unused annual allowance to carry forward.

Together with the £50,000 annual allowance for the tax year Rob can actually have pension savings of £95,000 without an annual allowance charge arising.

As Rob's £85,000 pension saving is less than his available annual allowance there is no annual allowance charge for that tax year.

There is also a strict order in which the annual allowance must be used. The annual allowance in the current tax year must be utilised first, followed by the unused annual allowance from earlier years, using the earliest tax year first.

The three year carry forward rule allows a person to make a large ad-hoc pension contribution without having to pay the annual allowance charge. For example a self-employed person who in a particular year makes a large profit, might be able to make a contribution to their pension scheme that is larger than normal and above the standard annual allowance level. This depends, of course, on the amount of contributions that have been paid over the previous three tax years and the amount of unused annual allowance that can be carried forward.

Full commutation in serious ill health – page 78

Add a fourth bullet as follows:

From 6th April 2011, if the payment is made after age 75, the lump sum is taxable at 55%.

Death benefits – pages 78 / 79

The existing section is replaced in its entirety by:

Taxation of lump sum death benefits from pension funds

These rules were amended post A-Day, but further changes were made for anyone who dies after 5th April 2011. The revised rules apply to both defined benefit schemes and to uncrystallised funds in respect of money purchase or cash balance arrangements.

On the death of a member, the whole of that person's pension fund can be used to provide a pension income to dependants. Alternatively, the trustees of the pension scheme may pay the fund as a lump sum to beneficiaries. Under the new rules, the three different scenarios are as follows:

- On death before age 75 and before drawing benefits, the pension fund can be paid to beneficiaries as a tax-free lump sum (subject to any lifetime allowance charge)
- On death after age 75 but before drawing benefits, the pension fund can be paid as a lump sum to beneficiaries less a tax charge of 55% (in this case, the lump sum death benefit is not tested against the lifetime allowance)
- On death at any age and where the person was taking benefits via capped drawdown, the pension fund can be paid as a lump sum to beneficiaries less a tax charge of 55% or, if there are no surviving dependants, to charities free of tax.

Trivial pensions – page 80

The first sentence of the second paragraph is amended to:

A person can decide that they would like to take some or all of their benefits as a trivial pension at any time after their 60th birthday and they then nominate a date at which all of their benefits are valued.

Capital protected (value-protected) – page 96

The entire section is replaced by:

With this annuity, when death occurs the life company will pay an “annuity protection lump sum death benefit” to the estate. This is equivalent to the shortfall between the gross payments already made and the purchase price less a “special lump sum death benefit” tax charge of 55%. So, for example, if a £20,000 lump sum is invested and the investor dies having received only one payment of say £200, a payment of £8,910 (£19,800 less £10,890) will be forthcoming from the life company.

Leaving service options – Death – pages 98 & 99

The entire section is replaced by:

Death

The benefits payable on death depend on whether the person is an active member, a deferred pensioner or a pensioner when they die, with benefits payable differing from scheme to scheme and for each member status.

Active members

Final Salary or Career Average Schemes

The benefits payable are usually a death in service lump sum, a return of the member’s own contributions and a survivor’s pension. The three elements do not however automatically all feature in every pension scheme.

Most final salary and career average schemes provide for a death in service lump sum benefit which is normally paid to a beneficiary or beneficiaries on the death of a member. The value of the lump sum is usually calculated as a multiple of the member’s final earnings and, typically, this might be two or four times the salary at the time of death.

Where the member dies before age 75 and the lump sum death benefit is paid within two years of the reported death, the lump sum can generally be paid tax free. If the death benefit is not paid within those two years and the lump sum is not transferred to a separate trust by the scheme administrator before the two year period is up, then the lump sum will be deemed to be an unauthorised payment which is subject to a tax charge of 55%.

If the lump sum death benefit exceeds the member’s Lifetime Allowance, the excess is also taxed at 55%.

Where the member dies after age 75 and hasn't taken their pension benefits, any lump sum death benefit will be taxed at the 55%, this being known as the "special lump sum death benefit" rate.

On joining a scheme, a member completes an Expression of Wishes or Nomination Form indicating whom the member would like the trustees to pay the lump sum to – the trustees do however have full discretion as to whom this payment is made to, i.e. someone financially dependent on the member. This is because death benefit lump sums must be payable at the discretion of the trustees in order to be exempt from Inheritance Tax.

In final salary and career average schemes, it's common for a refund of the member's own contributions to be paid, in addition to any other lump sum payment. The scheme may also provide a dependants pension paid to a spouse, registered civil partner, a financial dependant or children.

If the scheme is contracted-out, any Guaranteed Minimum Pension (GMP) is payable to a surviving spouse or civil partner.

Money Purchase Schemes

In money purchase schemes, normally only a refund of the accumulated fund is paid as a lump sum death benefit, although any dependant may have the option to use the accumulated fund to provide pension income instead.

If the scheme is contracted-out, a pension from the accumulated Protected Rights fund must be payable to a surviving spouse or civil partner.

The death benefit payment rules on death before and after age 75 and the Lifetime Allowance are as for active members above.

Death of a Deferred Member

Final Salary and Career Average Schemes

Where a person dies after ceasing to be an active member of a final salary or career average scheme, normally the only benefit is a refund of the member's own contributions, although some schemes do provide a Death in Deferment lump sum which is calculated as a multiple of earnings at the date of leaving.

If the scheme is contracted-out, any Guaranteed Minimum Pension (GMP) is payable to a surviving spouse or civil partner. Some schemes though, do provide dependents pensions as well.

Once again, the death benefit payment rules on death before and after age 75 and the Lifetime Allowance are as above.

Money Purchase Schemes

Again, normally only a return of the accumulated fund is paid as a lump sum death benefit, although any dependant may have the option to use the accumulated fund to provide pension income instead.

If the scheme is contracted-out, a pension from the accumulated Protected Rights fund must be payable to a surviving spouse or civil partner.

The death benefit payment rules on death before and after age 75 and the Lifetime Allowance are as above.

Death of a Pensioner

Final Salary and Career Average Schemes

Final salary or career average schemes normally continue to pay the pension to a dependant, with the level of pension payable being set by the scheme rules. Alternatively, it may also provide a lump sum on death, known as a “pension protection lump sum death benefit.” This is basically a lump sum which represents the difference between the costs of buying the pension at outset less the gross pension payments received prior to death. Any such payment is subject to a 55% “special lump sum death benefit” tax charge.

If the scheme is contracted-out, any Guaranteed Minimum Pension (GMP) is also payable to a surviving spouse or civil partner.

Money Purchase Schemes

Here, what can be paid on death depends on what has happened to the pension fund at retirement.

If the retirement fund has been used to buy an annuity, that annuity can be set up to provide a dependant’s pension. If the retirement fund included a Protected Rights fund, this must include a 50% spouses / civil partner’s pension. Such pensions are taxed as income.

It may be possible to set up the annuity which provides a lump sum on death. In this case, if the person dies, an “annuity protection lump sum death benefit” is paid – this is essentially a lump sum representing the difference between the fund value used to buy the annuity less the gross annuity payments received prior to death. Such a payment is subject to a “special lump sum death benefit” tax charge of 55%.

If an annuity is not bought, but an income is drawn from the pension fund (pension drawdown), the balance of any unused fund can be used to:

- Buy dependant's pensions
- Continue as pension drawdown
- Provide a lump sum or, possibly,
- Provide a combination of all three options.

As noted, any "special lump sum death benefit" paid is taxed at 55%.

Where there is a pension drawdown arrangement which includes Protected Rights and the member was either married or in a registered civil partnership at the time of their death, sufficient Protected Rights Funds must be used to provide a 50% pension to that spouse or civil partner before any lump sum death benefit can be paid.

With the abolition of Protected Rights on 6th April 2012, it is expected that for any deaths on or after this date, the entire Protected Rights Fund could be used to pay a lump sum.

If a dependant continues to draw income from the pension fund, the balance of any unused fund on death can be paid as a lump sum to a charity – if the member or their dependent has not nominated a charity, the pension provider will nominate one, with any lump sum paid to a charity being tax-free.

Pension revaluation – page 100

The final sentence of the final paragraph is replaced by:

Rules were introduced for the non-GMP element in the 1980s and 1990s. The most recent change requires that where a member left service after 31st December 1990, all of the pension in excess of the GMP will be re-valued. The pension in excess of the GMP revalues between date of leaving and retirement in line with the rate of increase in the Retail Price Index subject to a maximum of:

- 5% per annum for benefits accrued before 6th April 2009; and
- 2.5% per annum for benefits accrued on and after 6th April 2009.

NEST (National Employment Savings Trust) – pages 103-105

The entire section is replaced by:

Apart from the London Olympic Games, 2012, that year will also witness another major event.

From October 2012, the UK government will introduce the National Employment Savings Trust (NEST) as part of a bigger overall pensions reform strategy.

As noted earlier, the government estimates that about seven million people are currently not saving enough for retirement and so a major part of the rationale for the reform was to make it easier for these people to save for retirement. The proposals will have wide-ranging effects across every field of UK business as the onus will be put on employers to help encourage more people to save.

As such, from sometime between 2012 and 2016 (depending on the size of business and type of scheme), UK employers will have to automatically enrol all eligible employees into a qualifying pension scheme and make contributions to their plan.

A qualifying scheme must permit auto-enrolment and satisfy the quality requirements as set out in the Pensions Act 2008. Schemes that qualify include:

- (a)** A contracted-out defined benefit scheme if it delivers a minimum accrual rate of 1/80th for each year of pensionable service – pensionable earnings must at least equal the three year average of qualifying earnings (see below) for the last three tax years of pensionable service.
- (b)** A contracted-in defined benefit scheme if it delivers a minimum accrual rate of 1/120th for each year of pensionable service.
- (c)** A defined contribution scheme must meet the minimum contribution target of 8% of qualifying earnings and have a default investment fund.

Trustees of occupational pension schemes will be allowed to change existing scheme rules by resolution to increase contributions in order to satisfy the quality requirements, with any changes requiring employer approval.

Contract-based schemes will also be classed as qualifying schemes where comparable benefits are provided.

Under expected legislation, employers will need to:

- Automatically enrol and pay minimum contributions for any workers aged at least 22 but under 65 or State Pension age, depending on when they were born, who earn more than £7,475 (in January 2011 terms) in a year
- Enrol and pay minimum contributions for any workers at least 16 but under 75 who earn more than £5,035 (in November 2008 terms) in a year and who ask to be enrolled
- Enrol any workers aged at least 16 but under 75 who earn less than £5,035 and who ask to be enrolled, although they do not need to pay contributions for them.

The qualifying scheme may be an existing company pension scheme if it meets certain criteria, but if there is no such scheme in place and there is no intention to introduce one, then employers are required to use the NEST pension scheme.

The government has set a minimum contribution of 8% for these qualifying schemes – this is to be made up as follows:

- Employee contribution: 4%
- Tax Relief contribution: 1%
- Employer contribution: 3%

During the four year period from October 2012 while employers are being phased into automatic enrolment, employers and employees will be required to each pay 1% contributions. At the end of the phasing in period (October 2016), the contributions will increase. Where employers are being phased in and for instance who commence their NEST scheme in 2015, they will still be required to move to the 3% band as outlined below by 2017 at the latest.

Year	Employee	Employer (including tax relief)
Oct 2012 – Sept 2016	1%	1%
Oct 2016 – Sept 2017	3%	2%
Oct 2017 onwards	5%	3%

While employees can opt out, for those choosing to contribute their 4% plus 1% tax relief, employers must contribute at least 3% of the employees “qualifying” earnings (basic salary plus commissions, bonuses and overtime between £5,035 and £33,540 a year (in November 2008 terms). This will apply immediately to all new eligible employees and those not currently in a qualifying scheme.

It’s possible for employers to pay more and the employee to pay less, provided that the total contribution is at least the minimum. For example, from October 2017, employers can pay the full 8% and therefore the employee does not need to make any contribution.

When a person joins the scheme, their individual retirement pot will be automatically invested in a NEST Retirement Date Fund which is designed to suit the needs of most members and is based on the year of expected retirement. So for example, if a person has an anticipated retirement date of 2054, their retirement “pot” will be invested in the NEST 2054 Retirement Fund. A lifestyling approach will be adopted to expose retirement pots to the right amount of investment risk at each stage of an individual’s working life.

NEST also offers other funds for members who have certain preferences about how their money is invested. For example there is a Lower Growth Fund which aims to preserve the nominal value of capital and to grow in line with low risk money market investments. The fund invests solely in a sterling liquidity fund, with 100% being allocated to money market instruments – this fund’s returns may not keep pace with inflation.

There is also a Higher Risk Fund which seeks high returns through investing in high risk asset and is structured as a fund of pooled funds. The fund consists of portfolios exposed to assets such as global equities, emerging market sovereign debt, corporate bonds and property, with the underlying funds being predominantly passively managed. Members who invest solely in this fund will automatically be life-cycled unless they opt out of the process.

Other funds currently available include the NEST Ethical, Sharia and Pre-retirement Funds.

Charges have been kept low, with a contribution charge of 1.8% and an annual management charge of 0.3% of the total fund each year.

Additional Voluntary Contributions (AVCs) – page 106

The first sentence of the third paragraph is amended to:

At retirement, normally 55 at the earliest, the accumulated fund is used to buy an annuity from an insurance company, although this can be deferred until, for example, annuity rates have improved.

Free Standing Additional Voluntary Contributions (FSAVCs) – page 107

The first sentence of the second last paragraph is amended to:

FSAVCs can be drawn at any time from age 55 irrespective of whether or not the person has retired and is drawing their scheme pension.

Personal pensions – page 108

The entire section is replaced by:

Personal pensions were introduced in 1988 in succession to retirement annuity contracts.

These money purchase arrangements can, of course, not only be used to top-up benefits in connection with occupational schemes, but are one of the main investment vehicles through which the self-employed will save for retirement.

Available to UK residents under 75 years of age, they can be obtained from insurance companies, banks and building societies and many other financial services firms – indeed they can even be bought from some retailers, i.e. supermarkets and high street shops.

Being money purchase schemes, once again the prospective buyer needs to consider various factors, as discussed in the FSAVC section, before committing themselves to a particular provider and plan.

Prior to the pensions simplification regime starting, there were very complex rules as to how much could be paid into a personal pension plan each year, for example up to 17.5% of “net relevant earnings” (usually net profits or wages) could be paid in for those under age 36, whilst for those aged 61 or over, up to 40% could be contributed – up to the Earnings Cap as discussed previously. Now, the maximum contributions payable into a personal pension and which attract income tax relief is equal to 100% of earnings subject to the annual allowance, these contributions being paid net of basic rate tax. Higher / additional rate taxpayers can claim up to an additional 20% / 30% via their tax return.

Contributions paid in excess of the annual allowance, even if contributed by an employer, give rise to a tax charge of 40% on the pension scheme member. Even if a person has no earnings, up to £2,880 each tax year can be paid in by them or by someone else on their behalf. When basic rate tax relief is added, this equates to the HMRC contribution limit of £3,600.

Where someone elects to contract out of the State Second Pension, they continue to pay NICs at the full rate. The Government rebate of part of both the employer's and employee's NICs that has been paid, plus income tax relief on the individual's share of the rebate – this is invested separately, with the subsequently built up fund being the Protected Rights. There is no guarantee that the pension eventually purchased by the Protected Rights fund will be greater than the state additional pension given up as a result of being contracted out. Up to 25% of a Protected Rights fund can be taken as a cash sum, which is tax free. It's possible to take out a personal pension plan or stakeholder pension solely for this purpose – these are called appropriate personal pensions, although this will not be permitted after April 2012.

Personal pension scheme members can draw benefits from age 55 and again, at the risk of repetition, up to 25% of the value of the fund value can be taken as a tax-free lump sum. The remaining fund can be used to buy a conventional annuity or a drawdown pension, although a fund of around £100,000 would generally be needed to make this option cost-effective due to the on-going charges.

On ill health, up to 25% of the fund value can be taken as a lump sum, with the balance used to provide a pension, either an annuity or via a drawdown pension. HMRC allow a pension fund to be paid as a one-off lump sum on the grounds of **serious ill health** if there is a life expectancy of less than 12 months. A serious ill-health lump sum can only be paid from uncrystallised rights. There is no lower or upper age limit for paying a serious ill-health lump sum, but if the person is 75 or older the lump sum is taxable at 55%.

The position on death is as described earlier, with the taxation situation dependent upon the age at date of death and if, or how, the fund benefits had been drawn.

Group personal pension plans may be available via an employer and they operate under the exact same rules and in the same way as any other personal pension plan. The difference is that the charges levied by the provider may be lower than under an equivalent scheme.

Self-Invested Personal Pensions (SIPPs) – page 112

The final two paragraphs are replaced by:

At retirement there are various options available. It's possible to take a tax-free lump sum of 25%, with the rest either being used to purchase an annuity as a form of secured income or a client can opt for pension drawdown (capped or flexible drawdown).

On death before benefits are drawn from a SIPP and prior to reaching age 75, there is no tax to pay on the lump sum death benefits including no inheritance tax (IHT). Once again, anyone reaching the age of 75 will have a tax charge of 55% applied to their SIPP, although there will be no IHT liability, so dependants can receive a lump sum of up to 45% of the value of the SIPP. Alternatively, dependants could draw a income direct from the SIPP or purchase an annuity with the funds with such income being taxable.

Phased retirement – page 113

The first sentence is replaced by:

Phased retirement, or staggered vesting as it is also known, is an alternative option to a drawdown pension, with the main aim being to provide pension income flexibility at retirement.

Phased retirement – page 114

The third bullet point is replaced by:

provides, on death before age 75, a tax-free lump sum in respect of the residual fund (i.e. units not vested) – after this age a 55% tax charge is applied.

Budget - June 2010 – page 114

The entire section is deleted

Qualifying Recognised Overseas Pension Schemes (QROPS) – Risks – page 116

The first paragraph is amended to:

A QROPS is similar to pension drawdown in the UK, in that income is not secure and is based on the investment performance of the fund. Unlike in the UK though, where a pension drawdown contract can be converted to an annuity should a guaranteed income be required, through a QROPS it is difficult to purchase an annuity.

Qualifying Recognised Overseas Pension Schemes (QROPS) – Taxation – page 117

The entire section is replaced by:

The transfer to a QROPS is a benefit crystallisation event for the purpose of the member's lifetime allowance, with the amount crystallised being the transfer amount.

The taking of benefits relating to the transferred amount from a QROPS is not a benefit crystallisation event for the purposes of the individual's lifetime allowance. If however the transfer results in the member's lifetime allowance being exceeded, the rate of tax chargeable is 25%. The 55% rate cannot apply, even though the payment in effect is a lump sum, because it is not being paid to the individual, so does not fall within the 55% rate charging provision.

A major advantage of a QROPS relates to the treatment of funds on death. With a QROPS, if the member has been non-resident in the UK for five years or more, the whole of the residual pension fund on death can be passed on to the member's beneficiaries. With a capped / flexible drawdown arrangement, these are subject to a 55% tax charge on the residual fund on death, unless the fund is bequeathed to a charity.

HM Revenue and Customs announced a new anti-avoidance measure related to QROPS which was included in the 2011 Finance Bill. The new clause is designed to stop people from taking advantage of the double taxation treaty between the UK and others territories. In effect, if a person resides in the UK and transfers their pension overseas to gain a tax advantage then HMRC may apply an additional tax charge to ensure anti-avoidance.

Chapter 4

Returns required – page 130

The final paragraph and table are amended to:

So what return can be expected on investments? This is another major variable, but below are recent projections calculated for a pension fund for the three years from 2008 to 2010 – you can see how these alter over a short time span. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets, as suggested by the yields available and the views of various investment organisations.

Expected Long-term Rates of Return	2010	2009	2008
UK equities	8.4	8.0	8.3
Overseas equities	8.4	8.0	8.3
Government bonds	4.5	4.2	4.6
Corporate bonds	5.5	6.8	6.0
Cash and other	4.4	4.2	5.0

Retirement age and life expectancy – page 131

The first paragraph is replaced by:

As alluded to a little earlier, retirement ages are increasing. The coalition government has confirmed that the employment default retirement age, currently age 65, will be abolished from 1st October 2011, with the State retirement age set to increase to 68 by 2046, if not sooner!

Contribution limits – page 141

The amount in the 1st sentence is amended to:

£10,680

Contribution limits – page 142

The first paragraph is amended to:

With pensions, it's possible to make tax-relieved annual contributions of up to the Annual Allowance each year and to obtain tax relief at the individual's highest marginal rate on those contributions. It's also possible to contribute more than the Annual Allowance in any one year by using unused allowances from the previous three tax years using the carry forward facility.

Risk – page 146

Immediately following the "Fraud Risk" section, add a new category as follows:

Shortfall Risk

Shortfall risk simply means the risk of not achieving your investment target. This could happen if insufficient risk was taken on in order to receive the potentially higher rewards – alternatively, perhaps too much risk was taken and the portfolio fell in value.

For example, someone who will be retiring in 20 years and who puts all their capital into cash-based investments may not amass enough capital to produce their desired retirement income. Conversely, investing wholly in very high risk assets could mean a shortfall if the individual portfolio holdings perform badly.

Chapter 6

State pension – page 207

The final sentence of the second paragraph is replaced by:

Additionally, the government has published proposals that will mean that from December 2018, the State Pension age for both men and women will start to increase so that it reaches age 66 by April 2020. Further rises to ages 67 and 68 will occur by April 2036 and April 2046 respectively.

Chapter 7

Traded endowment policies (TEPs) – page 247

The final paragraph is replaced by:

Most TEPs are qualifying policies, for example unaltered policies or those altered to mature 10 years from the date of alteration. For qualifying policies, capital gains tax is payable on any gain. For example, if during 2010 / 2011, a TEP owner paid £15,000 for a policy plus £3,000 in premiums before the policy and the policy payout was £30,000 at maturity, the gain would be £12,000. £10,600 would be tax free with the remaining £1,400 being subject to tax. Assuming the TEP owner is a basic rate taxpayer, tax is paid at 18%, meaning a tax liability of £252.

Chapter 8

State support – page 277

The second and third sentences of the second paragraph are amended to:

The amount paid ranges from £72 to £108.70, and depends on which part of the UK the person lives. A personal care allowance is only available in Scotland and is currently paid at £159 per week, although the receipt of this benefit means that the person is no longer eligible to receive Attendance Allowance.

State support – page 277

The final sentence of the third paragraph and the entire fourth and fifth paragraphs (including the example) are amended to:

For example, in May 2011, if a person's capital exceeds the following thresholds, they must pay all of the relevant costs:

- England and Northern Ireland - £23,250
- Scotland - £23,500
- Wales - £22,500.

If the capital is less than £14,250 in England and Northern Ireland, £14,500 in Scotland, or £22,500 in Wales, the personal contribution will be assessed only on income. An individual with capital between the upper and lower thresholds will have a proportion of their capital added to their income. For every £250 (or part thereof) a person has between the lower and upper limits, he is treated as if he had another £1 of income per week. This does not apply to Wales, where there is only one limit.

In general, most of a person's income, including benefits, goes towards the cost of care, although a personal expenses allowance, currently £22.60 per week (Wales - £23.00), may be retained by the individual for their own personal needs.

George lives in Preston and will be going into permanent residential care.

He has £15,250 capital in his bank account and receives State and private pensions of £150 per week. It is assumed therefore that he has an extra income of £4 per week, taking his assessable weekly income to £154.

After his weekly personal expenses allowance is deducted, this means that he will have to contribute £131.40 per week towards the cost of his own care.

Chartered Banker Institute, Drumsheugh House, 38b Drumsheugh Gardens, Edinburgh, EH3 7SW

Telephone: 0131 473 7777 Fax: 0131 473 7788 Email: info@charteredbanker.com Web: www.charteredbanker.com

Chartered Banker Institute is a trading name of The Chartered Institute of Bankers in Scotland: Charitable Body No SC013927.