



REDUNDANCY AND PERSONAL FINANCE

A common sense guide to managing personal finance before, during and after redundancy.

Introduction

**“Give a man a fish, feed him for a day.
Teach a man to fish, feed him for a lifetime”**

Chinese Proverb

You, like most people may have avoided change and welcomed the status quo of ‘getting by’ in life. Changing is difficult. Forced change is even more difficult and often unnerving. Life changing events such as redundancy forces you to take action, to look outside of the box and perhaps move outside your own comfort zones.

Personal finance is an area where attention is required. Whilst employed the majority are comfortable with lifestyle requirements being met by earned income. However, while working we have little time to attend to personal finance matters despite knowing that we should, and despite the guilt we continue to bury our heads in the sand. Sound familiar? Well don't worry because you are certainly not alone. Now is the time to wrench your head from the sand, to face your personal financial concerns, and carry out a thorough MONEY MOT that will provide you with an immediate and longer term financial plan to meet your lifestyle goals.

There are many different financial matters that you will need to understand and consider. This booklet is designed to raise your financial awareness and provide a straightforward guide. It deals with questions such as:

- What immediate actions I should take?
- What are my State benefit entitlements?
- Replacing company benefits.
- Past, current and future pension matters.
- What should I do about my mortgage?
- What is my tax position?
- What should I do with my severance lump sum?

In writing this guide one thing that became apparent and concerning is its length. I can only apologise for this and offer the excuse that it is designed for all ages. For example, if you are 21 you may have little interest in the section on The State Pension. Equally, if you are retiring, you may have no need to read the sections relating to benefits. I suggest therefore that this is used more as a reference guide, with you reading the sections relevant to your particular circumstances.

This guide is designed to provide a better understanding of the financial matters that may affect you. The issues covered are generic and do not constitute individual financial advice. Henwood Court therefore takes no responsibility for any actions you take in response to reading this booklet.





Individual professional financial advice should be sought to ensure you are making the correct financial decisions. While you will find this booklet useful, it is designed to be thought provoking and encourage you to seek personal one on one advice.

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“Adding value through simplifying financial advice”.





Contents	Page
Termination Payments	4-5
Statutory Redundancy Entitlements	5
Immediate Action	6
Prepare A Budget	6
Register As Unemployed	6
People To Tell	7-8
Your Mortgage Provider	7
Credit Cards/Hire Purchase Companies	7
Utility Providers	7
Your Local Authority	8
HM Revenue & Customs	8
State Benefits	9-13
Job Seekers Allowance	9-10
Income Support	10
The Basic State Pension	10-13
Replacing Company Benefits	14-15
Level Term Assurance	14
Family Income Benefit	15
Pension Matters	16-20
Options On Leaving Employment	16-18
Pension Schemes Described	18-19
Pensions for the self-employed	19
Pension Simplification	20
Mortgage Matters	21-22
Assistance With Mortgage Payments	21
Negotiate A Better Deal	21
Endowment Concerns	21-22
Should I Repay My Mortgage?	22
Where Should I Invest My Severance Lump-Sum?	23-25
Goals Based Investing	23-25
Why Henwood Court Financial Planning	26
And Remember	27
Schedule A	28
Income Tax	28
Schedule B	29
Budget Planner	29





TERMINATION PAYMENTS

For many the only comforting factor in redundancy is the compensation payment. The first £30,000.00 is usually tax free. The excess of any payment over £30,000.00 is treated as salary and taxed under normal PAYE rules. If you are a basic rate taxpayer you need to be mindful of the fact that the severance payment may push you into higher rate tax bands (see Schedule A) which means that you will be liable to 40% tax on any payment in excess of £30,000.00. Your employer may still only deduct 20% (basic rate tax) from your severance payment. You will then be liable to the difference (currently 20%) at a future payment date normally the January after the tax-year in which your payment has been received. This normally occurs when payment is made after a P45 has been issued.

Your employer may pay you other amounts of money at the time of redundancy. These amounts can be included in the redundancy package (or something similar) without being compensation for redundancy (see table below). What money is paid to you will determine the amount of tax and NICs you may have to pay.

Payment	How is it taxed?	Are NICs Payable?
Unpaid Wages	Taxable in full	Yes
Payment in lieu of notice	Payments in lieu of notice made if referred to in any condition of employment, or if the employer has a custom of paying them, are taxable in full. Other payments in lieu are treated in the same way as redundancy payments (see below)	Yes No
Holiday pay owed to you	Taxable in full	Depends on circumstances
Restrictive covenants: a payment for an undertaking which restricts your conduct. (For example, not being able to work for a competitor)	Taxable in full	Yes
Occupational pension	Taxable in full	No
Payments made for meeting production targets or doing extra work in a period leading up to redundancy	Taxable in full	Yes
period leading up to redundancy		

Source: Inland Revenue Income Tax and Redundancy Brochure IR143.





You may if you have spent some time working abroad have a full or partial exemption from income tax on a payment in excess of £30,000.00. If you think this may apply to you, you should speak to your Tax Office for information about this exemption.

Statutory Redundancy Entitlement

The size of the statutory redundancy payment to which you may be entitled will depend on your age, your income up to a maximum amount and the number of years you have been working for your former employer. The maximum number of years' service that can be taken into account is twenty and you must have been working with your employer for at least two years to be entitled to any form of statutory redundancy payment.

The following table may be used to calculate individual entitlement:

For each complete year of continuous service between the ages of:

Age	Payment
18 – 21	0.5 * one week's pay
22-40	1 * one week's pay
41-65	1.5 * one week's pay

There is also a maximum for the reckonable weekly pay and the total amount that can be paid overall. You can see from the above that in order to be entitled to the maximum amount (1.5 * one week's pay * 20 years) you must be at least 61 years of age. However, if you are 64 years of age the amount will be reduced by one twelfth for each complete month after your 64th birthday.

An employer may offer more than the statutory minimum and will normally do so where an employment contract has been breached or by way of an ex gratia payment in cases of voluntary or negotiated redundancy. (Excess payments are commonly referred to as 'compensation payments'.)





Immediate Action

• Prepare a Budget

It is absolutely essential that you have an understanding of your weekly, monthly and annual expenditure commitments. A realistically prepared estimate of your expenditure for the next six to twelve months will help in planning your cash flow. Finishing this exercise can be of great comfort since eventually it confirms how long your available funds will continue to support the household, and it frees you to concentrate on the important task of finding further work. Budget planning will help provide greater financial discipline at a time when it is essential and once you have secured suitable employment.

Schedule B provides a template for you to begin your own expenditure analysis.

You may find it helpful to break down expenditure into three different categories, essential expenditure, luxury expenditure and disposable (surplus) income. Of course, everyone has a differing view on what is and isn't essential, but as a general rule, these should include items that you have to spend to 'keep the wolf from the door'. Luxury expenditure may include holidays, socialising and funding hobbies. Having taken out these items of expenditure you may be fortunate enough to be left with a surplus income. True surplus income is an amount that you could do without, or more logically, the money you may save for a future purpose. However, you must be realistic, if you arrive at a surplus income following completion of the budget planner, are you sure this amount can be saved, or is it actually been spent? If so, then you must dissect this surplus income and place it into the essential or luxury expenditure category.

• Register as Unemployed

Despite the fact that you may not be entitled to any benefits, one of the first tasks you should complete is to register as unemployed. This will ensure that National Insurance Contributions are covered which contribute towards your entitlement to the State Pension and Statutory Sick Pay. Ideally, you will speak to your local employment agency (job centre) prior to your redundancy to clarify your exact entitlements.

Men over sixty and in receipt of a pension need not register as credits are automatically granted, up to the tax-year preceding the one on which your 65th birthday occurs.





People To Tell

It is important that you communicate your position with the below institutions given the assistance that may be provided

• Your Mortgage Provider

Loss of earnings can cause problems with mortgage repayments. However, it is in everyone's interests that you maintain your mortgage, so most lenders will advise you on possible rearrangements of payments that will reduce your monthly outlay.

However, some are more amenable than others and it is important that you speak with your own individual lender to ascertain what assistance is available. They may for example, offer a payment holiday, defer mortgage interest, convert a repayment mortgage to interest only basis for a period of time, or extend the mortgage term. All these will reduce your payments, however, this is only temporary assistance, and you should understand that this will be at a financial cost over the longer term.

It may be possible for Income Support to pay some of the interest on your loan. This benefit is means-tested and there are a number of restrictions. If you have had the same mortgage since 1st October 1995 you will receive no help with payments for the first two months. After that, 50% of the interest for the next four months is payable. After six months the full amount of interest is payable.

Those that have changed their mortgage since 1st October 1995 receive no help at all for the first 39 weeks of unemployment. In addition:

The payment made is towards interest only – no contribution at all is made towards the capital repayments, nor towards the payment of any investment policy connected to the mortgage.

There is an upper ceiling of £100,000.00 for mortgages to qualify for assistance.

Assistance is restricted to a 'standard rate of interest' which may or may not be the rate that is actually being paid by you.

• Credit Cards / Hire Purchase Companies

Debt management is of vital importance. If no action is taken debts will continue to mount which could have very serious consequences. Furthermore, the interest charges are often high. Using compensation payments to reduce or eliminate these debts should therefore be given serious consideration. However, be careful to check that there is no redemption penalties associated with early repayment.





- **Utilities**

Gas, electricity, telephone bills and the Council Tax can be paid by monthly instalments, but if you feel there will be difficulty in meeting these bills, contact the relevant company or Council immediately, as they have schemes designed to help in such circumstances.

- **Your Local Authority**

If your children are at university or other educational establishments for which your Local Education Authority offers a grant, they should be informed immediately, any alterations may not be effective until the new academic year.

You may also qualify for Council Tax benefit which will reduce your contributions. However, this benefit is means-tested and the rules governing the reduction are very strict.

- **The Inland Revenue**

If you are made redundant before the end of the tax-year you have probably paid too much income tax. This is because under the PAYE system of tax collection that applies to employees in the UK, one twelfth (currently £536.25) of the annual personal allowances (currently £6,435) and the various tax bands are given against each month's salary. For example, if someone is made redundant in December, they will have not used 3 months worth of annual personal allowance entitlement amounting to £1,808.75. A basic and higher rate taxpayer would be then due a rebate amounting to £321.75 and £723.50.50 respectively. However, the HM Revenue & Customs will not make an immediate refund because any Job Seekers Allowance received is taxable and, until the full amount of benefit paid in the Tax Year is known, the Revenue cannot assess your final gross income for tax purposes. An adjustment is therefore provided at the end of the tax-year or when you cease to claim Job Seekers Allowance.

If you have dependent children, you may also be entitled to an increase in your entitlement to Children's Tax Credit given that your income will have fallen and this benefit is assessed against annual income. However, a compensation payment above £30,000.00 may have the reverse effect as an amount above this level will be added to income and therefore disqualify your entitlement to this benefit. To clarify your position you should contact the children tax credit office on 0845 300 3900.





- **Job Seekers Allowance**

Job Seekers Allowance is the main benefit for the unemployed and replaced unemployment benefit in October 1996. Everyone is entitled to Job Seekers Allowance provided Class One National Insurance Contributions have been paid for the last two years, you are available for work and are not in receipt of a pension above a permitted level (approximately £50 per week). You may be disqualified for Job Seekers Allowance if you resigned your last position or were dismissed for misconduct. You will also need for any in lieu of notice period to expire before you are entitled to receive any benefit.

How much will I get?

The rules for benefits mean that your individual circumstances may affect the amount you can get. This means that you will not always be able to work out how much you will get by using these amounts.

Weekly amounts

Contribution-based JSA	
Aged 16 - 24	£50.95
Aged 25 or over	£64.50

It is payable every two weeks in arrears for a period of 26 weeks.

Job Seekers Allowance is subject to tax at your highest marginal rate. This is not deducted at source instead the Inland Revenue will adjust your overall tax position.

National Insurance credits are made whilst in receipt of Job Seekers Allowance.

As soon as you are aware of your redundancy, you should contact your local job centre. On first contact they will ascertain your situation and requirements. You will then be provided with the necessary information with regard to making a claim and advice about other course of action you can take.

If you have a partner, you may both be required to make a joint claim for Job Seekers Allowance that may entitle you to a higher benefit award.

A new job seeker interview will then be arranged in which an adviser will explain and make sure you understand the conditions for receiving Job Seekers Allowance, discuss the types of work you are looking for, provide you with information about job vacancies, training and other opportunities that are available. You will then be provided with a job seekers agreement that takes into account your skills and experience. It will also set out your availability for work and any agreed restrictions, the type of work you are seeking, what you will do to secure employment, how to improve your chances of securing employment, and finally, the services provided by the job centre.





Normally you will need to attend the job centre at least once a fortnight to sign a declaration that you have amongst other things being actively seeking work and are still available for work. Payment of Job Seekers Allowance is linked to this declaration. It is important therefore that you keep a record of what you have done to secure future employment.

• **Income Support**

After 26 weeks your entitlement to Job Seekers Allowance will end and you may be entitled to Income Support.

Entitlement to Income Support will depend on the difference between the amount of your available income and your 'needs' as determined by the Department of Work and Pensions. Any capital resources will also be taken into account when determining the amount of Income Support to which you are entitled. If you live with another person, then his or her assets and income will be taken into account. In other words you will be assessed as a unit with you as the actual claimant. Most assets will be considered except your main residence, your household possessions, your car, or a property owned by you or your spouse and occupied by a relative who is either disabled or aged 60 or over.

If your capital resources exceed £8,000.00 in total you will be automatically disqualified from receiving Income Support. If your capital resources exceed this amount you should be wary of giving property away or spending money rashly just to get below the limit. The Department of Work and Pensions may consider you to have wilfully deprived yourself of a capital resource and disqualify you from receiving benefit.

• **The State Pension Scheme**

What is it?

State Pension is for people who have reached State Pension age. It is based on National Insurance (NI) contributions and is made up of different elements.

State Pension age

From 6 April 2020, the State Pension age for women will be 65, the same as for men. Women's State Pension age will start to change gradually from 2010.

This will not affect women born on or before 5 April 1950, who can still claim their State Pension at 60. Women born on or after 6 April 1955 will have a State Pension age of 65.

A recent White Paper (May 2006) proposes to increase the state retirement age from 65 to 66 over two years between 2024 and 2026 and from 66 to 67 between 2034 and 2036 and to 68 between 2044 and 2046.





Can I get it?

Have you:

- Reached State Pension age?
- Paid or been credited with NI contributions or has your husband or wife?

If you answered YES to both, you can claim State Pension.

State Pension is made up of the following:

Basic State Pension

Basic State Pension is based on how many NI contributions you have paid, been treated as having paid or been credited with. If you do not have enough, you may be able to pay some extra contributions.

Additional State Pension (also known as SERPS or State Second Pension)

Depending on your individual circumstances, you may be entitled to additional State Pension. As its name suggests, additional State Pension is paid in addition to the basic State Pension.

Graduated Retirement Benefit

Based on any graduated NI contributions you paid between April 1961 and April 1975.

Long-term Incapacity Benefit Age Addition to State Pension

Your State Pension will be automatically and permanently increased if you were getting long-term Incapacity Benefit Age Addition at anytime within the period of 8 weeks ending on the day before you reach State Pension age.

Your long-term Incapacity Benefit Age Addition will be reduced if you are getting any additional State Pension. This may mean no long-term Incapacity Benefit Age Addition is payable.

The rate you get will be the same as that which is paid with your Incapacity Benefit.

Extra State Pension for dependants

You may be able to get extra State Pension for your husband or wife.

Before 6 April 2003 you could get extra State Pension for any children you had responsibility for, or if someone else looked after children for you. If you were receiving this increase before 6 April 2003 it will continue to be paid. From 6 April 2003 provision for children is made through Child Tax Credits.





What else should I know?

If you are a married woman and cannot get a full basic State Pension based on your own NI contributions, you may be able to get a State Pension based on your husband's NI contributions. You can only do this if he is already getting a basic State Pension and you are aged 60 or over.

If you are a widow or widower, you may be able to get a basic State Pension based on your husband's or wife's NI contributions.

If you are a widow or widower, you may be able to get a State Pension based on your husband's or wife's additional State Pension.

If you are already a widow or widower you can get up to 100% of your late husband's or wife's additional State Pension.

If your husband or wife reached State Pension age before 6 October 2002, you will receive up to 100% of their SERPS pension or Additional State Pension when they die.

If your husband or wife is due to reach State Pension age after 5 October 2002 but before 6 October 2010, when they die you will receive a maximum of between 90% and 60% of their SERPS pension. The exact amount will depend on when, in this period, they reach State Pension age.

If your husband or wife is due to reach State Pension age on or after 6 October 2010, you will receive up to 50% of their SERPS pension when they die.

The maximum amount of additional State Pension that a surviving husband or wife can inherit will be 50%. If you are divorced and cannot get a full basic State Pension based on your NI contributions, you may be able to get a basic State Pension based on your former husband's or wife's NI contributions. They do not need to be getting their State Pension.

If you carry on working after claiming your State Pension, your earnings will not affect how much State Pension you get. But if you get extra State Pension for a dependent, their earnings may affect how much extra State Pension you get for them.

How much will I get?

Only use these amounts as a guide. The rules for benefits mean that your individual circumstances may affect the amount you can get. This means you will not always be able to work out exactly how much you will get by using these amounts.





Basic State Pension (per week from 12 April 2008)

Based on your own or your late spouse's NI contributions	£90.70
Based on your spouse's NI contributions	£54.35
Non-contributory Over 80 pension	£54.35
Age Addition	£0.25

All benefits are reviewed each year with most benefits being uprated in April. Increases in the basic state pension will be re-linked to wages by 2012 'subject to affordability and fiscal position'.

Additional State Pension

From 1978 to 2002 additional State Pension was paid from the State Earnings - Related Pension Scheme (SERPS) and was only available to employees.

From 6 April 2002, SERPS was reformed to provide a more generous additional State Pension for low and moderate earners, and to extend access to include certain carers and people with long-term illness or disability. This is called the State Second Pension.

Graduated Retirement Benefit

Based on your graduated NI Contributions paid between April 1961 and April 1975. For every £7.50 (man) or £9 (woman) of graduated contributions paid you get 9.63 pence (in 2004/05).

And Finally,

You may obtain a State Pension forecast from The Department of Social Security by completing form BR19. To request a form please call 0845 3000168 or visit web-site:

www.dwp/lifeevent/benefits/retirement_pension_forecast.html





Replacing Company Benefits

A theme running through this brochure is to 'take your time' and fully explore your options. However, one area in which you will need to act on ideally prior to leaving your employer is to replace the death-in-service benefit often provided by employers. Of course, should you have no financial dependants then this is not such an important issue. However, if you have financial dependants that will be financially worse off as a result of your death then private life assurance provision needs to be considered immediately. This may be only temporary cover, however, the importance is having cover.

The reason why this should be considered prior to leaving your employer is the fact that it may take a few months for your life assurance application to be accepted due to underwriting requirements. There are certain insurers (subject to health) who will provide immediate cover while considering your application and thereby avoid the underwriting delays. Such providers should be considered. Some employers will continue to provide life cover benefits on leaving their service for a period of time. They may also provide provision for spouse and dependant children within your preserved pension scheme. Details relating to this should be clarified so that your own personal life assurance shortfalls may be ascertained.

I have seen numerous examples provided by life insurers detailing the amount of life assurance people should have. We do not agree with these generic assumptions. The life assurance requirement is dictated by the expenditure levels of a particular family unit, and the degree to which they would want financial normality to continue in the event of the death of a breadwinner. The first stage in calculating life assurance requirements therefore is to calculate the annual expenditure. Then consideration needs to be given to how much this would be in the event of a breadwinner's death. Expenditure levels may increase due to the costs of childcare, or decrease if there is life assurance associated with a mortgage and of course the breadwinner's costs (food, clothing hobbies etc) will be taken out of the expenditure figure. Then of course consideration needs to be given to what existing provisions are in place. These include existing life assurance, capital resources, pension and/or investment income that may be available, and of course the surviving (if applicable) breadwinner's income. Consideration of future expenditure (university funding, inflation) also need to be accounted for. Only once all this has been considered can a life assurance shortfall be calculated.

Types of life assurance

Level Term Assurance

You can use this cover to protect you, your family, your mortgage or a business, for a fixed monthly premium throughout the term you have chosen. The amount of life cover you have chosen will be paid out as a lump sum if you die, or are diagnosed with a terminal illness and are eligible to claim before the term ends.





Family Income Benefit

Family Income Insurance is designed to provide a monthly income to a family after the death of its principle provider or their partner. The payments will continue at the value specified in the policy until the policy expires. These payments can be index linked to rise in line with inflation or continue at a flat rate.

Policies can be single or joint policies; in the case of joint policies the policy will pay out at the death of either policyholder, but it does not pay out twice if both policyholders die.

Please note that an income is only paid to the dependents up to the expiry date of the policy. At the end of the specified period all payments will cease and the policy never has a surrender value.

Consideration should be given to protection against suffering a critical illness or long term disability. Often the financial vulnerability created by such an event is greater than in the event of death.

Finally, it seems apt to mention in this section the importance of having a will. This will avoid all the problems associated with intestacy, will ensure that those you wish to inherit your estate will, will appoint guardians for dependant children, and may be used to effectively reduce your estate's liability to inheritance tax.





Pension Matters

Pensions' are front page news these days and it isn't surprising given the huge deficiency in pension provision by UK citizens. The Pensions Commission has warned in October 2004 that 9-12 million people - up to 40% of the workforce - were not saving enough for old age, in the most detailed analysis of the pension system in years. Three quarters of this group have no pension savings at all, according to research by the TUC. Millions of us will suffer badly. The current life expectancy for men who have reached age 65 is 81 which means an average retirement of 16 years. For women who have reached 65 it is 86, which means an average retirement of 26 years. And we're growing older all the time.

A company pension is a key ingredient to a comfortable retirement and it is for this reason that it is imperative that you make the right decisions in relation to the company pension scheme in which you are leaving.

Options on leaving employment

- **Take an immediate and probably reduced pension (early retirement).**

This option will be available to those employees who have reached an age (normally 50, although from 2010 this will be increased to age 55) where the pension administrators will consider early payment of the pension. Your pension may be taken even if you are returning to full time employment with a new employer. However, there are both pros and cons with such a decision and is largely down to personal circumstances. By taking the pension early, you are of course receiving an income that will have otherwise have been 'lost' if you wait until the scheme's normal retirement age. Furthermore, this income may be used to subsidise a lower salary from a new employer, or may make part-time work affordable thereby allowing you to enjoy a better 'work life balance'. However, this has to be considered against the possible punitive early retirement penalties that may create financial hardship in the longer term when fully retired.

Decisions surrounding sacrificing part pension for a tax-free lump sum will also need to be considered. Financial planning advice is essential to make the best decision in your personal circumstances.

Augmentation

If you are a member of a final salary pension your employer may provide you with the facility to augment the taxable element of your severance payment (£30,000+) into your pension scheme. This will increase the pension payable to you either immediately or at your normal retirement age, and will avoid paying immediate income tax on the taxable element of the severance payment. The downsides are that it will reduce the amount of cash available to you in the immediate term, and you may have to wait until you to retire to reap the benefits of augmentation. However, you should at the very least request from your employer whether this facility is available to you, and seek professional advice in relation to which is the correct decision for you.





- **Leave the pension preserved to take at a future date**

This will provide a pension at the schemes' normal retirement age although this will be less than originally estimated given that you will have left the scheme and neither you nor your employer will be making further contributions into the scheme. Your employer should provide you with a 'Benefit Statement' that will detail the preserved pension benefit at normal retirement age. Before you reach retirement age your deferred pension will be increased by a minimum amount prescribed by legislation. Some schemes increase benefits by more than the legislative requirements. This does not apply to Money Purchase or Group Personal Pension Schemes. Their values will be determined by the investment performance of the funds under management.

How can I track an old pension?

If you think you may have an old pension, but you are not sure of the details, the Pension Schemes Registry can usually help by tracing it for you. You can call them Monday to Friday from 9am to 5pm on 0191 225 6316.

- **Take a cash refund of your contributions**

A full refund of your own contributions is only possible if you have less than two years' service in the pension scheme and the scheme rules allow it. You have no rights to the benefit of your employer's contributions and, if the scheme is 'contracted-out', part of your contributions will be paid to the DSS to fund your SERPS and/or Second State Pension. You will then have to pay back the tax relief received on contributions.

- **Transfer fund to new employer**

Your new employer may offer to accept your pension scheme cash transfer in return for providing added benefits in their own pension scheme. If you are transferring benefits from one final salary pension scheme to another, this may be the better option as your transferred pension would then be linked to your future salary, which could rise at a faster rate than the inflation which is the possible rate in which the preserved scheme will increase by. Another possibility is that the value of the preserved scheme may be credited to a Money Purchase or Group Personal Pension scheme. These choices are often complicated and will not just involve the projected final pension amount. Consideration needs to be given to other factors such as normal retirement age, spouse/dependants pension benefits, benefits on death and much more. Specialist advice is therefore recommended prior to making such major financial decisions.

Legislation compels your old employer's scheme to allow you to take a transfer payment if you leave more than one year before normal retirement age, although there is no obligation on your new employer's scheme to accept it.





- **Transfer into an insurance company 'buy out' policy**

You may be able to transfer the value of your pension to an insurance company. They will issue a special pension arrangement in your name, with the same normal retirement age as under the old employer's scheme. A buy-out contract, which must satisfy minimum standards set by the HM Customs & Revenue and Department of Social Security, gives you control over the choice of investment and therefore the possibility of improving your retirement benefits by achieving a higher return on the money invested. However, in contrast to a final salary pension scheme, the pension payable at retirement is determined by investment performance and therefore entails greater risk.

- **Transfer into a Personal Pension Plan**

It is possible for the transfer value mentioned above to be paid into a personal pension arrangement again in your own name. This will provide similar results to as outlined above. The main difference from a buy-out policy is that you yourself will be able to add to the personal pension arrangement if you are eligible. It is possible to vary, by agreement with the pension provider, the form of benefits at retirement and the date at which you retire (subject to government legislation).

As a result of the "Maxwell" pensions scandal the pensions mis-selling in the late eighties and early nineties, legislation surrounding company pension schemes has continuously become more complex. So much so, that to transfer your funds out of a "Company Pension Scheme" a pension transfer specialist must produce a full transfer analysis and advise you as to what your options are and the most appropriate course of action.

Pension Schemes – A brief description.

Employee Sponsored Schemes

The Final Salary Pension Scheme

Final Salary Pension Schemes base the pension calculation on the number of years service and your salary at or near retirement. Rather oddly, there is no link to what you pay in and what you get out. Although, certain schemes allow Additional Voluntary Contributions (AVCs) to be used to buy additional years within the Final Salary Pension Scheme.

A typical scheme might guarantee to provide a pension that builds up at the rate of one-sixtieth of your final salary for each year of service up to an Inland Revenue maximum of forty-sixtieths – that is, two-thirds final salary at retirement (restricted for some higher earners). Some schemes operate on an eightieths basis where the employee builds up one-eightieth of final salary for every year of service and after forty years has achieved a pension worth forty-eightieths of one half of final salary. Public sector schemes usually operate on an eightieths scheme basis but are regarded as equivalent in value to a sixtieths scheme because the tax free cash is paid in addition to the pension.





The Money Purchase Pension Scheme

Money Purchase Pension Scheme direct contributions into selected investments to accumulate a fund which, at retirement, is used to buy an annuity from an insurance company. An annuity pays an income for life. A proportion of monies from the pension fund may also be taken as a tax-free lump sum.

The most important point to bear in mind with money purchase is that the level of income your fund buys is not guaranteed but will depend on four factors:

1. How much you and your employer contribute
2. The investment performance of the fund.
3. The level of charges deducted from your fund by the pension company
4. Annuity rates – that is, the level of income your fund will buy at the time you retire.

Most money purchase schemes fall into one of three categories:

Contracted-Out Money Purchase Schemes (Comps) are Inland Revenue approved occupational pension schemes and as such will follow the same contribution limits and benefit limits as final salary pension schemes. These limits are not guarantees – what you actually get will depend on the size of your fund at retirement and annuity rates. A COMP scheme must have a trust deed and rules and there must be a board of trustees who, as with final salary schemes, must provide annual accounts and are there to protect the interests of scheme members. COMPS are contracted-out of the Second State Pension and in return receive a rebate of the employee and employer National Insurance (NI) contributions.

Contracted-In Money Purchase Schemes (CIMPS) are the same as the above but do not contract employees out of the Second State Pension.

Group Personal / Stakeholder Pensions (GPPs) are probably the simplest and as a result the most popular type of money purchase scheme for employees. GPPs are **not classed as occupational schemes** by the Revenue and in practice GPPs operate in the same way as individual pension plans although a well designed scheme should offer some economies of scale. Contribution limits start at 17.5% for employees up to age 35, rising to 40% for employees age 61 and over. Employer contributions must be included in these limits but there is no obligation for employers to pay anything. These contribution limits will change in April 2006 (see below).

Pensions for the Self-Employed – A Brief Description

When setting-up a business, particularly for the first time, consideration of pension funding often gets parked into the considerable 'to do' pile. Of course, affordability is a big issue, particularly given the potential costs associated with establishing the business. However, the costs of delaying pension funding can be considerable at retirement and should be considered as soon as you feel that you and/or business can support contributions.





Providing a detailed outline of the options available to you is beyond this booklet. However, they include:

- | | |
|----------------------------------|----------------------------------|
| A Personal Pension Plan | A Stakeholder Pension Plan |
| A Self Invested Personal Pension | A Small Self Administered Scheme |

Detailed information relating to each of these schemes may be provided on request.

Pension Simplification - The Basic Facts

Over recent years, the Government has initiated several investigations into the UK pensions provision, and you may have seen articles in the media about them. As a result of these exercises, it has now made significant changes to the tax framework in which pensions sit – the current 8 tax regimes for pensions are being rolled into 1 – and has increased protection for members of pension schemes, notably final salary pension schemes.

Most of the changes will be effective from 6th April 2006, known as A-day. These are summarised below:

Minimum Retirement Age

- From the 6th April 2010, it will not normally be possible for individuals to retire until age 55.
- Between 6th April 2006 and 5th April 2010, it will be possible for those over 50 to begin any pension benefits.
- It will continue to be a requirement that retirement income benefits must start prior to age 75.

Multiple Pension Scheme Membership

- From A-day (6th April 2006), an individual can be a member of as many pension schemes as they wish, at the same time, regardless of the types of scheme and their personal circumstances.

Pension Contributions

- There will be a single limit on the tax-advantaged contributions that can be paid each year into pension schemes by, and for, an individual. This new limit will be known as the 'Annual Allowance'.
- The first Annual Allowance, which will be for the 2009/10 tax year, has been set at £255,000. It is likely to increase each subsequent year.
- With the benefit of tax-relief, individuals will be able to contribute up to the higher of £3,600 gross and 100% of relevant UK earnings.
- There will be no limit on the amount that employers can contribute to pension schemes in respect of an employee. For owner managed companies however, while this has yet to be confirmed, the employer contribution may be restricted to the employees taxable UK earnings.





Mortgage Matters

Assistance with mortgage payments

Loss of earnings through redundancy can create financial stress with one of the biggest issues been the continued repayment of the mortgage. Where this is a concern you should arrange a meeting with your lender. Lenders are generally sympathetic and may agree to postpone payments for a few months. The lender is unlikely however to postpone interest payments (unless you have a certain type of flexible mortgage). The DSS will if necessary help with interest repayments by way of Income Support (see page 7). Your lender may offer you other options. These can be:

- Transferring a repayment loan onto an interest only basis
- Re-scheduling the term of a repayment loan
- Suspending payments altogether
- Reducing interest payment

All these options reduce or eliminate the monthly payments and are normally offered for a given period after which the position is reviewed. If interest payments are going to be reduced or suspended, remember that the interest will still have to be paid at some stage. This can greatly increase the size of your mortgage, or extend its term, so such arrangements need to be used with caution.

Negotiate a better deal

Of course, if you are not within a redemption period, you may be able to renegotiate your mortgage scheme with your lender that may result in a significant monthly saving even if you have yet to secure alternative employment.

Most lenders operate a 'retention strategy' which they employ to prevent customers from re-mortgaging to other lenders. However, often this strategy isn't known to customers as this isn't communicated by many lenders. It is important that you therefore 'ask' your lender about their 'retention strategy', and then compare their offering to other lenders who offer attractive re-mortgage deals to entice new customers. There are a multitude of mortgage deals available and include fixed rates, discounted rates, capped rates, cash back re-mortgages and of course flexible mortgages. When negotiating a new deal you should be very mindful of the redemption penalties associated with the new scheme. You may also have to pay an arrangement fee to your existing or new lender, while a valuation fee and solicitors cost may be payable if you re-mortgage. Given the wide selection of mortgage schemes available, we strongly recommend that you seek professional guidance to help you select the most appropriate scheme for your circumstances both now and in the future.





Endowment Concerns

Many people are now facing up to large endowment shortfalls creating concerns about how the mortgage will be repaid. If you are affected by this then don't bury your head in the sand as the problem will not go away. You need to square up to the problem and devise an effective strategy that will solve the problem and suit you and your budget. Options include:

- Convert all or at least the endowment shortfall (assuming the lowest growth projection) onto a repayment basis. However, the performance of the endowment should continue to be monitored given that the projected shortfall may get worse. Alternatively, you may surrender the endowment and use the proceeds to reduce your mortgage balance which will then be repaid on a repayment basis. If you select this option you should ensure that you replace the associated life and if applicable critical illness cover prior to surrendering the endowment. You may be able to sell the endowment as opposed to just surrendering the plan to the life company. Finally, you may wish to convert the mortgage onto a repayment basis and keep the endowment plan going as a savings plan. Whichever option you select will depend on the endowment provider, the outstanding term (terminal bonuses payable on maturity may be lost if a plan is surrendered) and your risk profile.
- If possible, repay a portion of your mortgage (the shortfall).
- Establish another savings plan that will provide a future lump sum that may be used to repay the portion of the mortgage that the endowment has failed to repay.

Should I repayment all or part of my mortgage?

The redundancy cheque does give some people the opportunity to repay part or maybe even all of the mortgage debt. However, no major financial decisions should be made during the first six months of being made redundant. This is because your situation could change rapidly within that period of time and after six months you will have a much clearer vision of your future. The capital will still be available to repay the mortgage after six months if still necessary.

The decision about whether to repay the mortgage or not is very much a personal one. There is no right or wrong answer. However, there are certain situations when perhaps the mortgage debt should be repaid. These are:

- When an individual is about to retire, has a low risk profile, needs to reduce outgoings or enhance his/her pension income, and has other capital resources to act as an emergency fund and call upon once the debt is repaid.
- Individuals with no tolerance of risk and the repayment of the mortgage debt will allow for a 'better nights sleep'.





However, there are other situations when the mortgage should continue to be repaid out of income as this will 'free' the redundancy cheque for other purposes particularly if the mortgage is affordable out of income. This can include, funding (early) retirement, school/university fees, or future planned purchases such as a holiday home, a once in a lifetime holiday or a car(s). By simply using the redundancy cash to repay the mortgage you may be missing an opportunity. The redemption of the mortgage will result in a monthly saving, but very few people have the discipline to put this saving to good use. Instead, the saving is absorbed into monthly spends. By maintaining the mortgage, and investing the capital for a future use, your mortgage will have been repaid out of income, and you will have retained the use of the redundancy cheque for a future purpose.

Of course, if you have any expensive unsecured debts, then provided there isn't any steep redemption penalties, serious consideration should be given to repaying these liabilities.





Where Shall I Invest My Severance Lump-Sum?

Initially any redundancy lump sum that you may receive should be placed on deposit at least until you have gained new employment. If you have a spouse or partner who has no income, then it may be preferable to hold the capital in his or her name in order to take maximum advantage of both personal tax allowances. Remember that under the rules of independent taxation both spouses have a personal tax allowance. By completing Form R85 (supplied by the deposit taker) non-taxpayers can receive building society or bank interest gross. In securing suitable employment advice may be provided in relation to the investment of the 'redundancy cheque'.

It is always essential to retain some capital in an easily accessible account to meet emergencies. For the remainder you should seek to invest where there is potential for capital growth and/or increasing income, to help your capital keep pace with inflation.

The quality of the advice is crucial and you should ensure that it matches your own financial and lifestyle objectives. To achieve this Henwood Court employ the 'Goals Based Investing' approach.

Goal Based Investing

Too often a client's investment choices are driven by the features and benefits of investment products. This is largely a result of financial services 'big budget' sales and marketing strategies that emphasise the particular benefits of their products. Benefits such as guaranteed, high monthly income, past performance and tax free. These benefits encourage demand, but may be responsible for people buying unsuitable investment products that fail to meet with their expectations. This in turn fosters the poor reputation of the financial services industry.

At outset, rather than considering the features and benefits of investment schemes, you should be considering what you are investing for, adopting a goal based investment strategy. With the assistance of Henwood Court this will encourage you to construct a bespoke investment portfolio, as opposed to buying investment products 'off the shelf' adopting a 'one size fits all approach'.

At Henwood Court, we take time to consider your goals and tailor make an investment portfolio that is regularly reviewed to ensure that the initial solution continues to meet with your original and possibly changing goals. In doing so we are made to earn our money by researching the whole of the market until we find an investment that will have the most likely potential to achieve your goals. We do not want to sell investments products, we want to devise an investment strategy and provide a comprehensive service to help you to achieve your life goals.

We achieve this via a goal based investment framework. Like all good ideas this is relatively straightforward and is based on the idea that it is possible to combine an individual's financial resources with his or her own vision of personal fulfilment and security to provide a relevant wealth management plan or asset allocation that can actually be implemented in practice.





Goals-based investing differs from the traditional approach by recognising that investment solutions often require more than one strategy. Traditional investment processes usually rely on an estimate of an investor's overall risk tolerance. Goals-based investing recognises that investors have multiple goals and that they approach risk differently, depending on the goal. At any one time they have more than one risk tolerance. Utilising the methods of the 'modern portfolio theory' our goal is to provide wide diversification to assist in reaching your financial goals while also reducing the levels of associated risk through effective asset allocation.

Goals are organised according to priority and time horizon, and each goal is matched to an appropriate investment strategy. As such, an investor's wealth can be broken down into different pools. These pools of wealth can also be assigned to a particular goal that it matches in terms of priority and horizon. This means that an investor is able to more carefully plan for the future by allocating his or her wealth in a more logical and efficient manner.

Of course, ultimately, investment products will be purchased, however, by adopting the goals-based investing approach these will correspond to the discreet needs and objectives, while the overall allocation may reflect the investors risk tolerance much more closely than a more conventional asset allocation.

Our experience has illustrated that too many people have purchased or had products sold to them that they did not fully understand, failed to meet expectations and has resulted in disappointment. Worse still, despite recognising this fact, they still put their head in the sand in the hope that things may get better.

The goals-based investment approach, once implemented, must be constantly monitored and rebalanced to take account of the changing circumstances. However, what it does require is consideration and time from investors to consider 'what they are investing for'. There are many financial advisers out there that will happily sell you an investment product. However, with a little thought and consideration, taking time to review your requirements, will allow you articulate to us what you seek, that will allow us to construct a made to measure goals-based investment portfolio with product features designed for you not everyone!

Needless to say a holistic approach is adopting, with account taken of taxation (including consideration of inheritance tax) and protection (income, life) to ensure that all matters are fully considered.

Five Basic Steps To Goals-Based Investing

1. Discovery

The essential objective here is for you to consider and then articulate your goals. This is quite different from talking about investments and products. The important question becomes, 'What are my life's goals?'. This is the most important question because it determines everything else. This also allows you to look beyond immediate financial concerns.





2. Assessment

A discussion then follows focussing on how your goals fit together, the opportunities, the barriers, and what needs to be accomplished along the way to stay on course. Only through active portfolio management can excess performance be achieved.

3. Options

There are more ways to achieve goals than you may imagine. Numerous scenarios are looked at to see how an individual's wealth can achieve his or her most significant objective, present and future.

4. Implementation

Following a path mapped out by the desired options, a disciplined and responsible process is recommended. This is a critical point in the process as it is the point which the individual's goals are put in motion.

5. Managing Change

When change happens, we are prepared to help with the unexpected and be ready to recommend options for adjusting the initial plan and asset allocation, ensure it continually supports the way that you want to live. However, despite lifestyle and financial circumstances changing, often investment portfolios' do not alter to reflect this. Furthermore, many investment portfolios' suffer from '**Portfolio Drift**'. This occurs when over time investment values change and maybe even fund objectives, leaving the investment portfolio perhaps unevenly weighted in either a too high or too low risk environment, or perhaps too heavily exposed to one particular sector. This needs to be actively managed to ensure the goals based investment strategy remains in-focus.

Henwood Court Financial Planning Limited

'Taking financial advice to the next level'



www.henwoodcourt.com



Why Henwood Court Financial Planning ?

At Henwood Court Financial Planning we truly believe in independent financial advice. We are not transaction based advisers who simply sell products. We are professional advisers specialising in redundancy counselling available to help you at a time of need.

We have a wealth of experience with dealing with clients made redundant and are therefore familiar and sympathetic with the financial concerns you will have. Our role is to provide a professional hand holding service negotiating an exit strategy from your employers, assessing your requirements whilst in-between jobs, and implementing a longer term strategy once you have secured suitable alternative employment.

The quality of advice we provide is achieved by taking care to understand your needs and aspirations; by taking pride in ensuring that our recommendations are flexible enough to meet your precise requirements. This is proven by the many client relationships we have established and the high levels of satisfaction expressed by our clients as a result of our service.

To arrange for a financial consultation either call us on **0845 055 1970** or e-mail **info@henwoodcourt.com**

For further information visit our web-site – **www.henwoodcourt.com**





And Remember.....

- Everything comes to him who hustles while he waits.
- Get all the help and support you can – Don't fight the battle alone.
- Identify limiting factors, the things that hold you back. Understand what causes them and why they hold you back. Then overcome these limiting factors.
- Don't confuse excess activity with effectiveness. Make sure you spend time doing worthwhile activities. Equally, do not suffer from paralysis of analysis – constant plans and preparation and no real action
- Draw-up a To-Do-List, keep adding to it and DO the things on it.
- Constantly challenge your own boundaries.
- Question everything you are doing. You will soon understand where you are going and the effect this will have.
- Make a plan so you know and recognise what you want.
- Take control of you life and don't panic or rush into things. Weigh up all available options.
- Watch out for stress.
- Make sure your lifestyle is as normal and relaxed as possible.
- Look carefully at yourself and look after yourself carefully.
- THERE ARE NO SHORTCUTS TO ANY PLACE WORTH GOING!

Henwood Court Financial Planning Limited

“ Putting the CARE back into financial services ”



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**Schedule A
Tax Bands / Rates**

Income tax allowances	2008-2009 (£)	2009-2010 (£)
Personal allowance	6,035	6,475
Personal allowance for people aged 65-74	9,030	9,490
Personal allowance for people aged 75 and over	9,180	9,640

Taxable bands 2009-10 (£)	
Basic rate 20%	to £37,400
Higher rate 40%	over £37,400

Capital Gains Tax: Individuals and Trustees			
Annual exempt amount	2007-08 (£)	2008-09 (£)	2009-2010
Individuals etc*	9,200	9,600	10,100

Inheritance tax threshold	
Year	Amount (£)
2009-10	325,000
2008-09	312 000
2007-08	300 000





Stamp Duty Land Tax Rates From 23/03/06

Rate	Land in disadvantaged areas - Residential	Land in disadvantaged areas - Non-residential	All other land in the UK - Residential	All other land in the UK - Non-residential
Zero	£0 - £150,000	£0 - £150,000	£0 - £125,000	£0 - £150,000
1%	Over £150,000 - £250,000	Over £150,000 - £250,000	Over £125,000 - £250,000	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	Over £500,000	Over £500,000	Over £500,000





Schedule B Budget Planner

OUTGOING	CURRENT	FUTURE*
Mortgage / Rent	£	£
Loan Repayments	£	£
Other HP	£	£
Council Tax	£	£
Water Rates	£	£
Telephone Bills	£	£
Home Insurance	£	£
Electricity Bills	£	£
Gas Bills	£	£
Life Assurance	£	£
Household Items	£	£
Food - Home	£	£
- Lunches	£	£
- Snacks	£	£
- Eating Out	£	£
School Fees/Further Edu	£	£
Drinks/Cigarettes	£	£
Cinema/Theatre/Social	£	£
Sporting Costs	£	£
Holidays	£	£
Presents	£	£
Books & Stamps	£	£
Newspapers	£	£
Hairdressing	£	£
Clothing	£	£
TV Licence	£	£
Car Repair / Parking	£	£
Car Insurance/Tax	£	£
Petrol	£	£
Travel	£	£
Bank Fees	£	£
Membership Fees	£	£
Savings	£	£
Other	£	£
TOTAL EXPENDITURE	£	£

* This section should be completed if you anticipate a change in financial circumstances that will impact on your expenditure levels (i.e. repayment of your mortgage or retirement).





THE COMMENTS IN THIS BOOKLET ARE BASED ON OUR CURRENT UNDERSTANDING OF UK LAW HM REVENUE AND CUSTOMS PRACTICE. INDIVIDUAL ADVICE IS ESSENTIAL IN ALL CASES. THE INVESTMENTS REFERRED TO IN THIS BROCHURE ARE INTENDED AS A MEDIUM TO LONG TERM INVESTMENTS BECAUSE THEY, AND ANY INCOME ARISING, MAY GO DOWN IN VALUE AS WELL AS UP, YOU MAY NOT GET BACK THE FULL AMOUNT INVESTED, PARTICULARLY IF YOU WITHDRAW IN THE EARLY YEARS. LEVELS AND BASES OF RELIEF FROM TAXATION ARE SUBJECT TO CHANGE. TAX RATES AND RELIEFS REFERRED TO ARE THOSE CURRENTLY APPLYING AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE:

WRITTEN QUOTATIONS AVAILABLE ON REQUEST

THE FINANCIAL SERVICES AUTHORITY DOES NOT REGULATE SOME FORMS OF DEBT CONSOLIDATION OR INHERITANCE TAX PLANNING.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME.

For further information please call 0845 0551970 or go to www.henwoodcourt.com



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