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## Making sure your finances are in strong shape

**While the UK general election and its aftermath will continue to dominate the headlines for the foreseeable future, looking after your finances remains as important as ever.**

In this edition of Finance View we take a look at the National Employment Savings Trust, protecting your income and the latest ISA changes. We conclude with an overview of the main announcements in the Conservative Liberal Democrat coalition agreement reached on May 11 2010.

Please contact your Positive Solutions IFA Partner if you have any queries about the issues discussed in this edition.



## Personal accounts migrate to NEST

**On 7 January 2010, the Personal Accounts Delivery Authority (PADA) announced that what we had known as the personal accounts scheme would now be called the National Employment Savings Trust (NEST).**

So what is NEST and how did it come to fruition? Current projections of our population suggest that the number of us who are age 65 and older will roughly double between now and 2055. (Source: Personal Accounts Delivery Authority.) Also, the Department for Work and Pensions estimates that around seven million of us are not saving any thing like enough to provide the income we might need or want when we retire.

In 2005 the Pensions Commission released its Turner report, which assessed the need for wholesale UK pensions reform. Among its recommendations was a national pensions savings scheme. This has now evolved into NEST. The government is carrying out its reforms gradually from 2012 and PADA is the body created to help make this happen.

For the first time in the UK, NEST will introduce a form of compulsion into retirement planning. Because of the inertia that surrounds retirement planning currently, employers will either have to set up their own qualifying workplace pension scheme or use NEST as their default alternative.

Employers will have to pay a contribution to NEST of at least 3% of a stipulated band of earnings. There will be a total minimum contribution of 8% of this earnings band made up of employer contributions, employee contributions and tax relief. For someone earning around £25,000, this would equate to a total contribution of about £1,600 a year. The minimum contribution requirements will be phased in gradually so employers and employees become used to the idea.

Any change that encourages people to save more for their retirement is welcome. However, NEST is not the panacea to a serious problem of under provision. NEST will not create a generation of wealthy pensioners, what it does is create an environment where everyone has access to a workplace pension scheme and hopefully, over time, creates a mindset where saving for retirement becomes the norm.

What NEST does not do is nullify the need to take personal responsibility for ensuring you achieve the retirement you want by planning well in advance.

**If you want to make sure you're on track for the retirement you want, don't wait until 2012, contact your Positive Solutions IFA Partner without delay.**

## Is your income protected?

**We live in an uncertain world, which makes creating and preserving our financial security essential for us all. This means you must take action to ensure that you, your family, your income, your home and, therefore, your lifestyle are protected, should the worst happen to you.**

So how would you cope if you lose your income because of illness or disability?

Since 27 October 2008 the Government has been paying incapacity benefits in a new way – the Employment and Support Allowance (ESA), which replaced the earlier Incapacity Benefit for new claimants. As the ESA payment you may receive is not linked to your earnings, it is unlikely you will be able to preserve your standard of living. Therefore, it is up to you to take action to protect your income should you suffer illness or disability.

### Why has ESA been introduced?

Unlike its predecessor Incapacity Benefit, ESA is about assessing what you can do rather than what you can't do and aims to prepare ill and disabled people for work wherever possible, by giving advice as well as financial support. There is no automatic right to ESA and your entitlement will be decided by assessment of your capacity to work.

Therefore, should the worst happen, the only way you can be sure you will have enough income is by making your own provision.

You may think it won't happen to you, but being unable to work because of illness or disability can and does happen.



However, there is something you can do about it. It doesn't matter whether you are employed or self-employed, you can protect your income against being unable to work.

**If you want to look at ways of protecting your income, contact your Positive Solutions IFA Partner.**

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## ISAs explained

**Individual Savings Accounts (ISAs) were launched in 1999 as a replacement for Tax-Exempt Special Savings Accounts (TESSAs) and Personal Equity Plans (PEPs). ISAs encourage saving by giving valuable tax concessions.**

In the 2010/11 tax year, you can save up to £10,200 in an ISA. Of this, you can invest up to £5,100 in a cash ISA; the balance must go into a stocks-and-shares ISA. Once invested, your savings grow free of personal income tax and capital gains tax. Anyone age 16 or over can have a cash ISA but you need to be 18 or over for a stocks-and-shares ISA.

If you already have ISAs you can transfer your holding from one ISA to another. This can be useful if the interest rate on your current cash ISA is no longer competitive or you are considering converting a cash ISA into a stocks-and-shares ISA. However, you cannot convert a stocks-and-shares ISA into a cash ISA.

Recent research showed that 25% of people with cash ISAs do not know the rate of interest they are receiving on their ISA (source: moneyfacts.co.uk). If you need advice on your existing ISAs or want to take advantage of your 2010/11 ISA allowance, contact your Positive Solutions IFA Partner.

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# A new kind of government

**The 2010 General Election has resulted in the first coalition government since the Second World War. The absence of a clear majority for any party after the votes were counted resulted in the Conservatives and Liberal Democrats forming an alliance with David Cameron as Prime Minister and Nick Clegg as his deputy.**

So what can we expect from the new government and how might it affect our finances? Some early indications are contained in the coalition negotiations agreement reached on 11 May 2010.

## Deficit reduction

The two parties have agreed this as the most urgent issue facing Britain. The government will hold an emergency budget within the first 50 days with the emphasis on reduced spending rather than higher taxes.



## Tax and National Insurance

The Liberal Democrats have won a concession on their plans to reduce the tax burden on the lower paid. It appears likely that a significant increase to personal allowances, focused on those with low to middle incomes, will take place from April 2011. The longer term objective is to increase the personal allowance to £10,000.

The government will not implement the Conservatives plan to raise employee National Insurance thresholds, but will carry out the proposed increase to employer National Insurance thresholds.

Further work will be done to reach an agreement on taxing non-business capital gains at rates in line with income tax, with generous exemptions for entrepreneurial activities. There will also be renewed efforts to tackle tax avoidance.

It appears the Conservative plan to increase inheritance tax thresholds is now shelved.

## Pensions

The government will hold a review to decide when state pension age increases to 66. However, this will not happen before 2016 for men and 2020 for women.

In a positive move, the government has agreed to abolish the requirement to buy an annuity at age 75.

**Clearly there is a lot more detail needed and we will know more after the emergency budget. Meanwhile, if you have any concerns about how any of this may affect you, contact your Positive Solutions IFA Partner.**

Call your Positive Solutions IFA Partner to discuss your needs.



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