SimplyMoney

MCB Financial Planning Ltd

Silver End Business Park
Brettell Lane Brierley Hill
West Midlands DY5 3LG

Telephone
01384 70300

Facsimile
01384 70311

Email
info@bfs.uk.net

Website
www.mcbfinancial.co.uk

Registered in England - No. 6165956

Authorised and Regulated by The Financial Services Authority

Your independent window on financial issues

Insurers must observe gender equality

Gender equality for insurance purposes will soon make some policies more expensive, but the rises may be avoidable.

From 21 December 2012, insurers must not take gender into account when setting premiums, which will increase costs for some people. A ruling by the European Court of Justice means premiums for new insurance policies or renewals of existing cover must be set without regard to gender.

The Directive has implications for insurers' long-held principle of setting premiums according to level of risk. Statistically, women live longer than men, which has meant they have usually paid less for life insurance than men of similar age and health.

However, not only life insurance premiums will be affected. Gender has historically influenced claims levels, and thus premiums, for other forms of insurance. In some cases, as with life insurance, men are a higher risk; in others, women make more claims, statistically.

Impact on annuity rates

Future retirement income levels may also be affected. Retirement annuity rates have been lower for women because, in general, they can expect to receive their annuity income for more years. From 21 December 2012, it will no longer be possible for an insurer to offer a man of, say, 70, a higher annuity rate than a woman of similar age and health.

Whilst men in general may thus see rates for new pension annuities reduce, some may qualify for an enhanced rate if they are affected by a health issue that makes their life expectancy shorter than the norm. This is well worth exploring with your adviser, who will know which providers offer such 'impaired life' annuities, for both male and female clients, and in what circumstances.

(The Directive only covers insurance and pensions that are private, voluntary and separate from the employment relationship. If an annuity is purchased by the employer/trustees then it is exempt from this ruling, but if an Open Market Option is used and the contract is purchased by the individual, it will be bound by the ruling.)

Fortunately, for someone planning to take out protection insurance that is not subject to periodic renewal, early action can help to lock-in to current premium levels and avoid any adverse adjustment expected to stem from equalisation. Other cover renewable annually or at longer intervals may be affected upon first renewal after 20 December 2012.

Whilst no single insurer will be able to quote different premiums for male and female policyholders, the competitive nature of insurance means that even the gender 'disadvantaged' by equalisation may avoid an increase. A professional insurance intermediary is often able to find an alternative provider on favourable terms.

INSIDE THIS ISSUE

Worth studying school fees options

It is not unusual nowadays to hear about employers saying they cannot find suitable young recruits because the education system has not provided the basic skills required in the workplace, even for relatively low-paid jobs. This is very disconcerting for those parents hoping that their offspring will have every opportunity to gain the qualifications they need to land a satisfying job, develop a worthwhile career and enjoy the living standards that may go with that.

Have you done your homework?

There are, of course, many good state schools that achieve excellent exam results and provide a rounded education, though demand for places may exceed capacity. Choice of schooling is a very personal issue for parents and this article is not so much about whether private education should be chosen, as about ensuring that the substantial cost is provided for if the private route is taken. Education is a long-term project and pulling a child from their school because funding has run out can be harmful to their education and development.

University is expensive, too

The total cost of private education depends, of course, upon whether it starts when the child is very young or not until the secondary school stage. Beyond that, with tuition fees and other bills now also a considerable cost, the university years must not be overlooked in the early financial calculations. Projecting total costs over two decades is difficult, because of unknowns such as inflation and additional charges for extra-curricular activities - and whether any bursary or scholarship will be granted. History suggests that education cost inflation outstrips the main price indices; this trend may or may not continue.

Families with substantial free capital or assured sources of income may feel confident about meeting future school fees but for many it is vital to start planning early to secure certainty about ongoing provision. Either way, meeting fees entirely from taxed income is not the most effective way to meet education costs, as alternative methods (including ISAs and Junior ISAs) may be more tax-efficient and spread the cost in a more manageable way, to a timescale not tied precisely to the period when education is provided.

A qualified professional adviser can provide guidance on investment strategies that may help to generate funds to cover future education costs, often with the aim of producing capital gains rather than income. They may also be able to structure a pension plan, with tax relief on contributions, that provides the facility to pay off education costs when a parent reaches 55. Another aspect of securing continuity of funding is insurance against loss of income through accident, sickness or redundancy. If you are contemplating private education for children or grandchildren, study all the options in consultation with your adviser.

8%, 10% or more for pensions?

Under the pension auto-enrolment scheme, which begins this October for the largest organisations, both employers and employees (except when the latter opts out) must contribute specified minimum percentages of salary to eligible employees' pensions. The minimum start is 1% each from both employee and employer but this will rise in stages to 4% and 3%, respectively, over the next few years. With tax relief on the employee's contribution taken into account, this equates to 8%.

Many experts believe that investment of a higher proportion of salary into a defined contribution scheme will be needed to ensure a really worthwhile income in retirement. In fact, there already exists a voluntary scheme that sets the bar rather higher - at a minimum 10% overall, with 6% contributed by the employer. The Pension Quality Mark scheme (PQM) was set up in September 2009 by the National Association of Pension Funds, to raise confidence in defined contribution occupational pensions, as final salary schemes faded from prominence.

PQM emerged three years after Government moves to help defined contribution arrangements, through changes to pension

Are you saving enough?

regulations. Those changes were designed to increase flexibility as regards amounts contributed, range of investment options, benefits provided and retirement age. They did not alter the fact that direct defined contribution pensions place investment risk upon the employee and make the eventual monthly pension value less certain.

Defined contribution can deliver

With all the change and uncertainty surrounding pensions, the major pension funds wanted to build belief in the ability of defined contribution schemes to deliver worthwhile income in retirement. There was no way to guarantee pension levels, which would depend on long-term investment performance and future annuity rates, but the NAPF decided that it could specify minimum contribution levels for PQM and set high standards for those involved professionally with occupational pensions, their set-up and their operation.

Another ambition for PQM was that it should help to make pensions and the decisions people need to make about them more comprehensible. Many professional advisers were already playing a big part in this, when consulted by individuals or companies, but the NAPF felt that more could be done. PQM would include a requirement for clear and engaging communication with members about their scheme. Communicating and providing advice on pension matters often require external input as not all businesses have the resources for this. So, PQM also incentivises advisers to achieve high standards when involved in pension scheme development and employee communication on behalf of corporate clients.

Part of the message to communicate may be that auto-enrolment contribution levels should be regarded as the barest minimum, with PQM levels or higher as aspirations.

Funeral costs expected to carry on rising

The cost of living is a worry for millions but, as the old joke goes, there's no escape because the cost of dying has also gone through the roof. Inheritance tax thresholds are currently frozen, so the tax take upon death is potentially rising, while the cost of a funeral has increased more than 50% in five years. That's according to data from researchers Mintel, showing a typical funeral up from just under £2,000 to just over £3,000 between 2005 and 2011.

These amounts may sound like small beer to anyone comfortably off at the moment, but there are a couple of points worth thinking about. One is that average funeral costs are widely

Funeral expenses have escalated

forecast to continue rising and push through £4,000 in 2016. The other is that if someone needs to spend a few years in a nursing home or residential care home their assets may be depleted by the time their funeral has to be paid for.

As some of us feel a reluctance to contemplate our own demise and make a proper Will, it's probably true to say that, unless there is a real risk of having no money in the bank at the end, we aren't naturally inclined to think too much about our own funeral. There are notable exceptions, of course, such as the woman whose ashes were placed in a model Viking longship that was sent floating away in flames as per her wishes.

For more conventional funerals and cremations, one answer to rising funeral costs and depleted assets is the funeral plan. Usually available to people aged over 50, these undertake (no pun intended) to pay for a future funeral when the time comes, in exchange for payment in advance. This is usually an agreed lump sum, but sometimes instalments may be agreed with the plan provider.

A pre-paid funeral plan with a reputable and trusted provider can bring peace of mind now and save relatives the problems of arranging and paying for the funeral. Some details of the funeral can be agreed as part of the plan and the provider should adhere to these. Some plans are in effect prepayments to funeral directors, while others take the form of an insurance policy.

Clarify with your adviser the most suitable plan for your needs and ask what would happen if the provider ceased trading before your funeral was needed; is your money held in trust? Registration with The Funeral Planning Authority is something to look for. Your adviser may also be able to help with wider financial issues and tax planning. Some types of pre-paid funeral plan do not count as an asset for inheritance tax purposes, so could save IHT.

News in brief (data compiled by The Financial Marketing Department except where otherwise stated)

July mortgage lending at £12.7bn was 8% higher than June, the Council of Mortgage Lenders said. It was 2% above July last year and a 2012 high. Although the August figure was down slightly at £12.6bn, CML thinks the NewBuy and Funding for Lending schemes could soon encourage more buyers.

Retail sales rose 0.3% in July to provide a fillip for business sentiment, figures from the Office for National Statistics showed. However, consumer interest in the Olympics took minds off shopping and 0.2% decline resulted in August. Some retail segments gained a boost from the Games but others lost out.

A positive but precarious jobs outlook was reflected in the latest Chartered Institute of Personnel and Development *Labour Market Outlook* survey of employers by YouGov. The survey showed that one-third of employers were hanging on to surplus staff, for now, to provide adequate skilled resources if business improves soon.

The official estimate of UK economic shrinkage in the second quarter of 2012 was later revised downwards. New figures released in late summer showed the economy contracted by 0.5%, better than the 0.7% previously indicated. Most leading forecasters suggest UK growth will be roughly flat for 2012, recovering next year.

Wills not just for the elderly

There are so many statistics about the proportion of UK adults that have made their will that it is probably best not to quote any of them. The unsurprising trend that age-banded data shows is that the inclination to make a will increases progressively as we grow older. That is a natural trait of human nature and it may seem rather curmudgeonly to suggest younger people should think more about the frailty of life.

In fact, it could be argued that in certain respects it is more important for a 30-year-old with two young children to have made their will than it is for a widow of 90, though the latter is probably more likely to have done so. Clearly, the chance of dying tomorrow is lower for the average 30-year-old than the average 90-year-old, but the consequences for a young family are potentially catastrophic if one or both parents are killed in a road accident for example.

Think the unthinkable sometimes

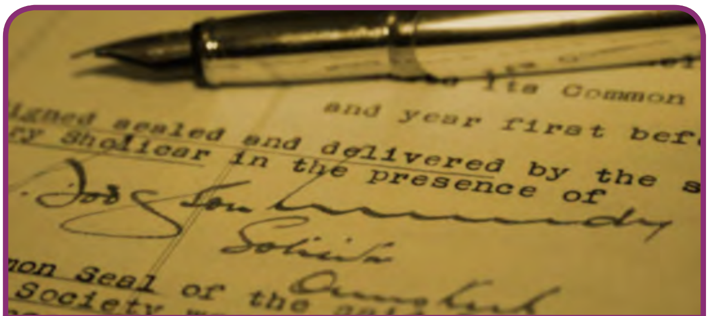
Sometimes we just have to think the unthinkable, ask ourselves 'what would happen if…?' and decide how to handle it. A will can deal both with the question of who would (and have agreed to) bring up the young orphans if the worst happened and how the expense of that might be funded. So, in providing for these unlikely but possible circumstances, there would be a lot of sense in combining the will-writing process with a review of insurance protection that could help meet that cost should it become necessary – and so bring peace of mind.

Whilst many younger adults would thus be well advised to consider making their will, this really is an issue for adults of all ages, whether or not they are married, living with a partner or single. What everyone should take on board is the often-repeated point that if you have no valid will in place when you die then the rules of intestacy will apply. These do NOT automatically provide for a partner to receive anything and can even limit the proportion of the estate due to a surviving husband or wife.

Another point often missed from people's deliberations is that if a widow or widower with children, grandchildren and great-grandchildren leaves no will, surviving family may not know whether this was because the deceased had decided intestacy rules met their wishes or they would, for instance, have liked adult grandchildren to benefit. This can lead to soul-searching over a possible deed of variation to bring in the adult grandchildren as beneficiaries under the intestacy, controversial if the children have different numbers of offspring.

Combining will writing with a family financial review could save a lot of worry and possible disagreement for those left behind.

Will writing is not regulated by the Financial Services Authority



Make sure you have a will

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.