

Financial Services

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General

Financial advice in the United Kingdom is regulated by the Financial Services Authority (FSA). Advice must only be given by FSA regulated individuals or firms.

Independent Advice

Advice may be provided by firms offering independent advice or by those connected to a provider of products, sometimes known as tied agents. To be independent an adviser must have access to all products in the market and all suppliers and he is governed by a strict code of conduct. Those who are operating as tied agents have access to a limited range of products and in general they are all from the same supplier.

Company Benefits

Pensions

An employer in the United Kingdom with five or more members of staff must provide access to a pension scheme known as Stakeholder. This is a low cost basic pension plan and it can be contributed to by means of salary deduction or directly by the employee.

Although the law says that access must be provided, there is currently no obligation for an employer to contribute to their employees' pension arrangements.

It is easy to apply for Stakeholder designation, usually by means of a Financial Adviser. Once the designation is in place your obligations will have been met. There are severe penalties where the employer does not install a Stakeholder Pension.

Some employers regard the provision of pensions as a valuable benefit to their staff and have set up schemes into which both they and the member of staff can contribute.

Death Benefits

If an employer wishes to provide death benefits for members of staff this can be done on a relatively economic basis taking advantage of group scheme rates. Usually the minimum number of members of such a scheme is five and the greater the number of eligible employees the lower the unit cost. There are tax advantages to the employer for providing such benefits which are in general received by a deceased employee's family free of Inheritance Tax.

Income Protection

In a similar manner to death-in-service benefits, it is possible to provide insurance against an employee being unable to work for extended periods. This can pay a proportion of his salary from the date of their sickness to recovery or the reaching of a pre-determined age, such as 65.

Private Medical Insurance

Many employers provide access to private medical schemes for employees. In a similar manner to death-in-service benefits, it is possible to gain considerable cost reductions if the number of employees in the scheme is substantial and will be a good deal cheaper than if an employee was to effect the plan himself.

Individual Benefits

Benefits to individuals can generally be divided into three areas, namely Investments, Pensions and Protection.

Investments

Individuals who have capital sums to invest have a variety of options open to them, some of which can be very tax efficient. The expected return from such investment schemes can be substantial but there is also a risk that capital can be reduced in times of poor Stock Market performance.

Individual Savings Accounts (ISAs)

These are a Government sponsored savings vehicle and the main benefit is the freedom from Income and Capital Gains Tax from the proceeds of such an investment. The maximum which can be invested in any one tax year is £7,200 currently and it is limited to those who are ordinarily resident in the United Kingdom or who are Crown Employees operating abroad. For those who do not wish to invest the full amount of their ISA allowance into Stocks and Shares, it is possible to invest £3,600 into a Cash ISA which will normally be invested in a bank or building society and the interest on the account is paid without deduction of Income Tax.

Collective Investments

These are generally known as Unit Trusts and are invested in Stocks and Shares by expert Fund Managers and will spread the risk in order to protect the investor and give them access to the equity markets but without putting at risk more money than they can afford. For example, an investment of say £5,000 into a Unit Trust will give the investor access to around 50 companies. Whereas, if individual shares were to be purchased, the amount of money required for such as investment would be a good deal higher.

Pensions

Individuals can contribute up to 100% of their UK earnings into a pension scheme. Those with little or no income can contribute upto £3,600 per year regardless of income. In both cases, they will receive tax relief at that basic rate and an additional saving if they are higher rate taxpayers. This means that any contribution is going to be made net of tax and the investment funds into which that money is placed will accrue on a non taxed basis within a tax-free fund.

These benefits are available to pension funds to encourage people to make provision for their retirements and there are restrictions on how the benefits can be used. For example, there is a minimum age from which benefits can be taken, currently 55 and at the time the pension is taken up to 25% of the resultant fund can be taken in cash and the rest has to be used to provide an income which is taxable in the same way as other income would be. In many cases, it is possible for an employer to contribute to such a scheme which will further enhance the benefits available at retirement.

Protection

Protection is provided in general by means of a life assurance policy. This can be one with a predetermined term which will provide a sum to be payable on the death of the life insured, provided that death takes place before the expiry of the selected date. Many people take out life assurance to protect their mortgage and this would therefore provide a sum equal to the mortgage to be repaid at any time between the outset of the mortgage and its repayment date.

For those who require protection on a permanent basis, then a whole of life insurance policy is available, which as its name suggests is payable for the whole of a person's life and on their death will pay a predetermined sum, plus any profits which have accrued. There are other forms of protection which can be designed to meet the needs of a young family.

The cost of provision of life assurance protection increases with age, so that a person in their 20s will pay very little for quite a lot of cover, whereas someone in their 50s or 60s will pay a good deal more for the same level of cover.

How to Access Advice

In order to receive specific advice on any part of the financial services industry products, you will need to have access to either an independent adviser or a tied adviser. There are a number of web sites available which will direct you to a local financial adviser and will state whether they are independent or not. For those specifically wishing to have access to an independent financial adviser, there is a web site available called unbiased.com which can be used free of charge by those seeking independent financial advice. It will list advisers nearby to the enquirer.

Disclaimer:

This note does not contain a full statement of the law and it does not constitute legal advice. Please seek legal advice if you have any questions about the information set out above.