

17 Stakeholder it is then Sir...

Gerald Butler, 38, and his girlfriend, Naomi Carter, 34, live in a two bedroom flat just outside Woking in Surrey. Gerald works as a grounds engineer for a local builder firm, earns £20,000 plus plenty of overtime. Naomi is a nurse at Guildford General Hospital, earning £18,500. They own their flat, valued at approximately £150,000 and have a £55,000 endowment mortgage, with a remaining term of 15 years.

Gerald adores Naomi, so much that every Sunday he produces the most vibrant bunch of flowers he can muster from the shops on Saturday. Every month, he proposes to Naomi, and each month she turns him down. One day, he yearns.

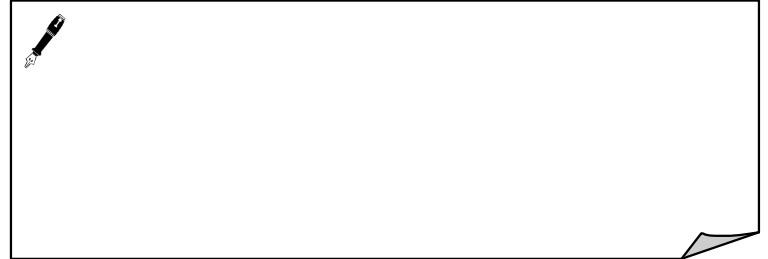
Gerald resigns himself to living with Naomi for the rest of his life as partners and never as a married couple. Increasingly Gerald has been thinking about his later years and particularly retirement.

Further details

Further details	Gerald	Naomi
Ages next birthday	38	34
Income	£20,000	£18,500
Current outgoings	£1,500 monthly	
Protection Plans	PHI to age 60 £360 monthly benefit Joint Endowment Sum Assured £55,000 15 years remaining £38 premium	
Savings and investments	£5,000 on deposit 90 day account	
Pension	None	NHS Superannuation Occupational Pension Scheme

Questions

- 1 Would Gerald qualify for the basic State Pension and the State Second Pension (S2P)?



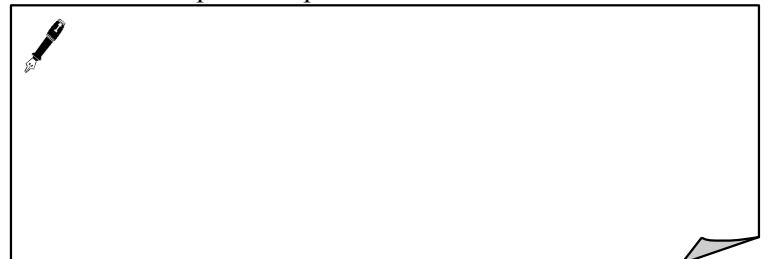
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- 2 What private pension(s) would Gerald be eligible for?



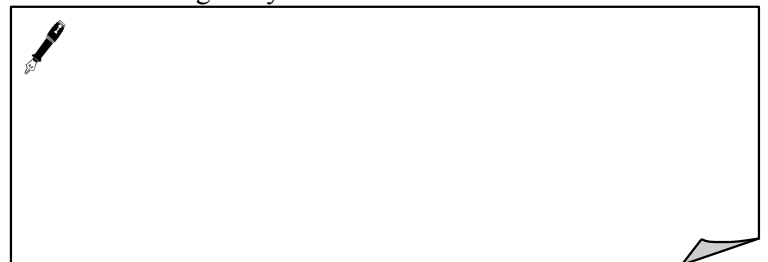
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- 3 What cost advantages do Stakeholder Pensions have over traditional personal pensions?



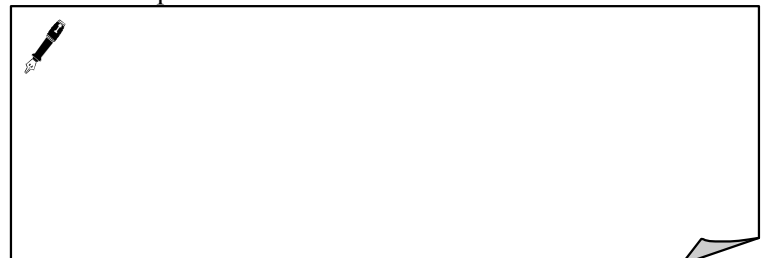
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- 4 What are the eligibility conditions for Stakeholder?



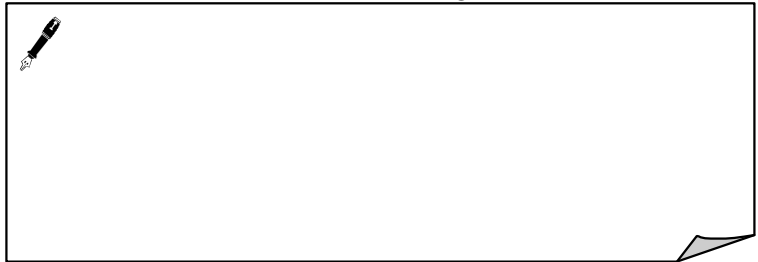
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- 5 How much could Gerald contribute to his Stakeholder pension?



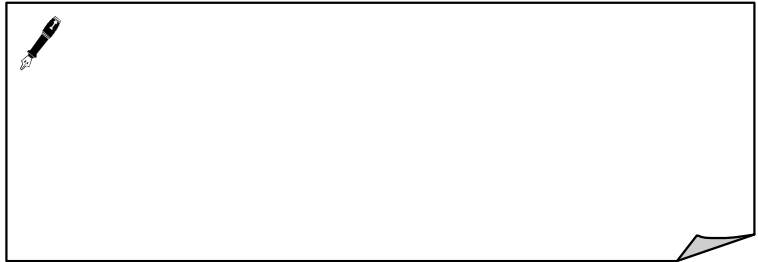
A rectangular box for writing the answer to question 5. It contains a small icon of a pen nib in the top-left corner and a folded corner effect in the bottom-right corner.

6 Gerald decides to contribute £120 a month to his Stakeholder. What evidence of earnings is needed?



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7 How will he receive his tax relief?



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8 How flexible is the Stakeholder with his £120 contribution?



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9 When could Gerald take his income from his Stakeholder pension?



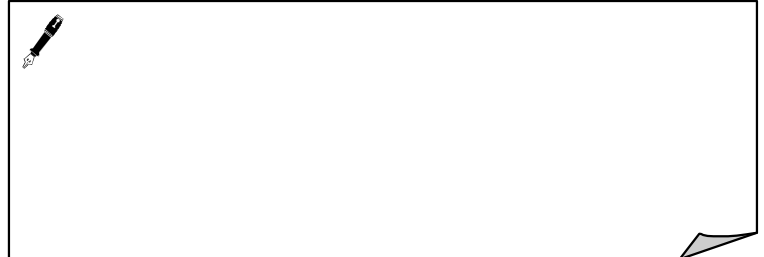
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10 What options are available to Gerald when he does decide to stop work?



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- 11 Naomi belongs to her employer's Occupational Pension Scheme and has been a member since last year. She realises that many of her nurse friends are going to get a larger pension than her when they retire. What schemes could she fund from her own pocket that would supplement her Occupational Pension?



- 12 What is the Act that governs many aspects of Occupational Pension Schemes and what is the regulatory body set up by the Act?



- 13 How much compensation does the new Act provide under the Pension Protection Fund?



Answers

- 1 He sure would and I bet you the S2P comes as a surprise. He needs to keep up his National Insurance Contributions.
- 2 Stakeholder
- 3 They must have the total costs capped equal to 1% of the client's fund. However most personal pensions are the same now.
- 4 Pretty much most of the population, since that was the idea of the government. My daughter can have one (with me as guardian) or my granddad who is 73 next month.

The restrictions are people over 75 and you have to be a UK resident for tax purposes (remember that bit).
- 5 Realistically what he can afford each month. Legally up to 100% of his earnings (or £3,600 if this is less). The overall maximum is £215,000
- 6 None because of the little rule that says those paying in under £3,600 each year don't have to prove their income. Neat rule and let's face it £300 a month is a lot of money.
- 7 Straight away for Gerald. He pays basic rate tax and will get 22% relief on his premiums. If he wants to put in £100 a month into his pension, he pays £78 and the Inland Revenue pay in £22.

Higher rate tax payers will get the rest of their relief in their self assessment tax return.
- 8 Totally. Gerald can stop his premiums. Restart them again later, increase the amounts and then decrease them. No worries really
- 9 When he reaches 50, but maybe later as we seem to be living longer these days.
- 10 He can take a quarter of his fund to spend as he wishes and the rest has to be used to buy a Compulsory Annuity. This little beauty pays the income until you die.

If he had a decent sized fund, he could opt for drawdown. This is taking your lump sum but squeezing an income from the money in your fund, rather than buying the annuity.

- 11 Naomi could choose a Stakeholder, an Additional Voluntary Contribution (AVC) scheme operated by her employer or fund a Free Standing Additional Voluntary Contribution (FSAVC) scheme available from a variety of insurance companies and is separate from her employer.

The stakeholder would probably be the best for her but she would need to look at the AVC first.

- 12 The Pensions Act 2004 and the Pensions Regulator

- 13 Compensates members schemes in cases of fraud and misappropriation. (I love that word don't you!)

- 100% for existing pensioners
- 90% for pre-retirement members

- 21 Anne Anderson aged 34, wishes to pay the maximum Stakeholder contribution. Her income is £35,000. She can pay an annual contribution of
- A £3,600
 - B £6,125
 - C £35,000
 - D £215,000
- 22 Under a National Savings Easy Access Savings Account, which of the following is false:
- A The minimum investment is £100
 - B The first £70 of interest earned is tax free
 - C A cash card is issued
 - D Interest is payable net of basic savings rate tax
- 23 Which of the following carries the lower risk to the sum invested?
- A overseas equities
 - B UK equities
 - C managed funds
 - D cash or money funds
- 24 Which of the following may be of particular interest to a higher rate taxpayer looking for a medium risk investment?
- A Shares
 - B higher rate building society account
 - C Stocks and Shares ISA, invested in unit trusts
 - D Cash ISA

- 12 The difference between an endowment policy and term assurance is that endowments:
- A qualify for life assurance premium relief.
 - B can be written in trust.
 - C provide a return at the end of the term.
 - D do not have an element of life cover.
- 13 Which one of the following types of endowment will normally guarantee that the original mortgage loan will be repaid in full at the end of the term?
- A Qualifying unit-linked
 - B Low start unit-linked
 - C Non-profit.
 - D Low cost.
- 14 Which one of the following illnesses would NOT normally result in benefits being paid out from a critical illness policy?
- A Heart attack.
 - B Stroke.
 - C Skin cancer.
 - D Kidney failure.
- 15 In order to be eligible for S2P, what class of national insurance MUST an individual be paying?
- A 1.
 - B 2.
 - C 3.
 - D 4.
- 16 Between what age limits can MOST people take benefits from a Stakeholder Pension?
- A 50 - 75.
 - B 50 - 80.
 - C 55 - 80.
 - D 55 - 85.

- 17 A client's Stakeholder Pension plan fund at retirement is £160,000. What is the MAXIMUM available as a tax free cash sum?
- A £24,000.
 - B £32,000.
 - C £40,000.
 - D £48,000.
- 18 What rate of tax relief is granted on additional life cover premiums to a Stakeholder Pension plan?
- A None.
 - B 20% maximum.
 - C 22% maximum.
 - D The highest marginal rate paid
- 19 What tax, if any, is payable on distributions from a cash Individual Savings Account (ISA)?
- A Income.
 - B Corporation.
 - C Capital gains.
 - D None.
- 20 What are repayment mortgages also commonly known as?
- A Interest only mortgages.
 - B Capital and interest mortgages.
 - C Endowment mortgages.
 - D Reducing equity mortgages.

- 21 Which one of the following is NOT a way in which a repayment mortgage differs from an endowment mortgage?
- A A separate life cover policy is required
 - B Interest is payable on the outstanding loan.
 - C Capital and interest are paid each month to the lender.
 - D The possibility of a surplus at the end of the term.
- 22 Which one of the following describes an advantage which a unit-linked policy has over a with-profit policy, for mortgage repayment purposes?
- A A guaranteed minimum maturity value.
 - B Tax relief on the premiums.
 - C The chance of a surplus at the end of the term.
 - D The possibility of repaying the loan early.
- 23 What is the main advantage of using a Stakeholder Pension plan to support an interest only mortgage?
- A They often run over a longer term.
 - B They are assigned to the lender.
 - C They guarantee to repay the loan.
 - D They benefit from favourable tax concessions.