

Talking Points - Redundancy

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Should your pension stop working if you do?

That might not be the first question a client may ask an adviser when facing redundancy, but is it a question the adviser should ask? In this talking points we explore the options open to adviser and client, and the impact they can have.

Looking ahead

A simple perception might be that a typical SIPP client is affluent and immune to the current economic downturn. The reality is of course likely to be very different. It isn't just the financial sector shedding jobs in 2009 – you'd have to look hard to find an industry that isn't affected. A redundancy can affect employees at all levels.

In the face of redundancy, a pension has to compete with all the other calls on income and capital. An adviser will be considering repayment of debts, meeting continuing outgoings, costs of further education and liquidity of investments. Yet still a pension can make a compelling case to make the best out of what can be a very difficult situation, and a SIPP has some extra tricks up its sleeve.

Options

Take a client earning £80,000, made redundant with a £50,000 payment. The first £30,000 is tax free, but the balance above will be subject to 40% tax. If the circumstances are right a £20,000 gross (£16,000 net) pension contribution can be made. With the higher rate tax relief claimed, the tax on the redundancy payment is neutralised.

If vesting is also an option, the PCLS has also now increased by £5,000. With a SIPP, income need not be taken if not required, plus higher rate tax relief will add a further £4,000 regardless. But a SIPP has a further use: consolidation. Despite being highlighted as an area of concern in a recent FSA review, when properly documented and appropriate, consolidation of several schemes into one can help preserve the value of retirement benefits.

Seemingly safe companies with final salary schemes have failed recently, and clients have never been more aware that their pension is only as safe as the company supporting it, especially as PPF guarantees are limited.

Our view

A redundancy may seem devastating for a client. However, good advice can help make the best of the situation, and should spur on a client to take a holistic view of their finances. A good adviser will keep working even when a client isn't, and will make sure their pension keeps working too.

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