it's good to Share

ifs ProShare NEWS

June 2008

Supporting employee share ownership and financial education in the workplace

Media

The past few weeks have seen continuing positive press coverage for ***ifs*** *ProShare* with articles mentioning our organisation appearing in the *North West Evening Mail*, *Liverpool Daily Post*, *Birmingham Post*, *Financial Adviser* and *Money Marketing*. A recent edition of *The Mail on Sunday* also contained a positive piece on the benefits of employee share ownership making reference to both ***ifs*** *ProShare* and member organisation Sainsbury's.

ifs *ProShare*'s 2007 SIP & SAYE surveys provided some newsworthy results, with big increases in the average monthly amounts of savings being made in both SAYE (£89 a month), and SIP (£83 a month). However, the most eye-catching news was the increase in SAYE accounts from 1.7 million to 2.3 million.

A number of publications and web sites covered this story, such as the *London Stock Exchange*, *Chartered Secretary*, *Every Investor* and *Financial Adviser*. The results also received national press coverage in the form of Reuters, the BBC, *The Scotsman* and *Daily Mirror*. These recent hits mean that ***ifs*** *ProShare* has secured some form of national media coverage in each of the last 16 months – helping raise awareness of employee share ownership and further enhancing the role of ***ifs*** *ProShare* as the voice of the employee share ownership industry.

The impressive SAYE payout at ASDA (another ***ifs*** *ProShare* member) earlier this month has also resulted in positive media coverage; not just for ASDA and ***ifs*** *ProShare* but most importantly, for employee share ownership in general.

SIP to SIPP

Guest article from PricewaterhouseCoopers

One thing that seems to becoming more popular at the moment is the idea of using a Self-Invested Personal Pension ("SIPP") to hold shares in the employer. Is this genuinely a good idea?

There are a number of reasons why it sounds good. For example, many companies require senior executives to hold a minimum number of shares and a SIPP can be a tax-efficient way of holding them. Also, many Share Incentive Plans ("SIP") have been around for five or more years and so employees are able to take the shares out of a SIP and get further tax relief by transferring them into a SIPP. This tax relief looks very attractive. But is it?

Let's say an employee buys £1,000 worth of partnership shares through a SIP. With the tax and NIC relief, this will cost a basic rate taxpayer a net £690. If, at the end of five years, the shares are still worth £1,000 and the employee decides to transfer them into a SIPP, the employee gets 20 per cent tax relief on a net £1,000 contribution and so the SIPP receives £1,250 of value (the £1,000 shares and £250 of tax relief). Even without any change to the share price, this means that an initial contribution of £690 for the employee is now worth £1,250, an increase of 81 per cent.

Lobbying

i) SAYE Savings Rates

The April newsletter highlighted the fact we intended to consult members on the issue of SAYE monthly contribution limits, which have remained at £250 for over 15 years.

This survey has now been completed and we are very grateful to all those who took the time and trouble to respond. Our results found that just over 20 per cent of SAYE participants are saving the maximum £250 limit each month.

Although average savings levels are less than half the maximum amount, the fact that 20 per cent of employees are saving this maximum sum suggests many would benefit from an increase. Furthermore, the £250 limit was introduced 17 years ago. Had the amount risen in line with inflation each year, a figure of over £400 would now be the maximum monthly contribution.

A small number of members raised concerns about increasing accounting costs but it is important to recognise that no company has to permit employees saving up to the maximum amounts if it does not wish them to do so. A number of companies already restrict the maximum amount an employee can contribute to below the £250 limit imposed by the Government.

ifs *ProShare* will shortly commence the lobbying process on this issue and will continue to update members on progress.

ii) Budget Submission

The final touches are now being added to ***ifs*** *ProShare*'s Pre Budget Report submission. This will be submitted to the Treasury next month and a copy will also appear on the members-only section of our website.

Fiona Downes

We were very sorry to lose Fiona, who has been the face of ***ifs*** *ProShare* for the last three and a half years. Fiona has taken a part-time position at Roehampton University, which will allow her to spend more time with her young family. We are actively seeking a replacement for Fiona and hope to have someone in place soon.

SIP to SIPP cont.

For a higher-rate taxpayer, the £1,000 of partnership shares would have originally cost a net £590. With tax relief, the SIPP still receives the same £1,250 as with a basic-rate taxpayer. In addition, a higher-rate taxpayer receives a further 20 per cent tax relief on the £1,250 (another £250) and so the net cost falls to £240. Again, without any change to the share price a net £240 delivers £1,250, a 421 per cent return!

All of this sounds too good to be true! The numbers look good but there is no magic about transferring the partnership shares to a SIPP. The employee could have sold the partnership shares in the market and then contributed this cash into a personal pension. The tax relief would be similar. Similarly, the employee could have used the cash to make additional voluntary contributions into a pension scheme. In either case, the cash would normally be invested in some type of fund rather than being invested in employer shares.

Transferring the cash from a sale of the partnership shares to an existing personal pension would mean that the employee would not have to pay additional fees. Also, if the employer matches some or all of the employee's pension contributions then it would seem to make sense to pay additional cash pension contributions rather than to transfer the shares to the SIPP.

Another issue is that when employees draw a pension from the SIPP, only 25 per cent can be taken out tax-free. For a higher-rate taxpayer, this means that the net tax relief will be less than expected. However, it can be attractive where an employee is currently a higher-rate taxpayer but expects to be a basic-rate taxpayer when they retire.

Where the employee wants the tax relief and still wants to invest in employer shares then a SIPP could be an attractive way forward. However, explaining all this to employees won't be easy.

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Events

Conference and Exhibition 2008

Join us at the Hotel Russell, Covent Garden, on Tuesday 23 September for the 2008 Conference and Exhibition sponsored by:

- HBOS Employee Equity Solutions
- Equiniti
- Killik Employee Share Services
- Baker & McKenzie
- Ogier
- Sanne Group
- Yorkshire Building Society

As usual, we have a programme packed with sessions intended to update, educate and inform delegates. Presentations include case studies, panel discussions, technical updates and research findings. Details of the event can be found at http://www.ifsproshare.org/events/esp_annual_conference_2008/index.cfm.

Training courses and workshops

We will be taking a break during the summer, returning in September with another exciting programme of training courses and workshops. Details are on our website www.ifsproshare.org. We would like to take this opportunity to thank all the organisations that have provided speakers for these courses especially the companies that provide such excellent case studies.

2007 SIP and SAYE survey results

A big thank you to all the administrators who contributed to the 2007 surveys. Data was received from:

- Barclays Share Plans
- Capita Share Plan Services
- Equiniti
- Excellerate HRO
- HBOS Employee Equity Services
- Killik Employee Services
- Yorkshire Building Society

Members of ***ifs*** *ProShare* were invited to attend a presentation of the survey results at an event at the House of Commons sponsored by Stewart Jackson, MP.

Key findings from the 2007 survey were:

SIP

- The percentage of foreign-owned subsidiaries offering SIP has dropped from 45 per cent of the companies surveyed to 36 per cent
- The number of companies offering Free shares has risen from 23 per cent to 28 per cent of companies surveyed
- The average monthly investment in a Partnership Share Plan has risen to £83

SAYE

- Only 72 per cent of companies surveyed offer the full 20 per cent discount
- Three-year contracts are the most popular, with 67 per cent of companies surveyed offering this period
- The average monthly contribution has risen to £89

The full survey results have been made available free of charge to members of ***ifs*** *ProShare*. Non-members may purchase a copy of the surveys by contacting Phil Hall at phall@ifslearning.ac.uk.

Awards

If you haven't yet received details of this year's Awards categories please contact us at ifsproshare@ifslearning.ac.uk or visit our website www.ifsproshare.org. Entries must be in by Monday 29 September, so you have plenty of time over the summer to create that winning entry.

This year we are asking you to pre-register your entries so we can contact you if we haven't received anything by the entry deadline. To pre-register an entry please email the company name and contact details along with the categories you are entering to ifsproshare@ifslearning.ac.uk putting "Awards Pre-Registration" in the subject line.

For table bookings and details of sponsorship opportunities please contact Denise Courtney at dcourtney@ifslearning.ac.uk.