

SECP's expense limits for With Profits and unit-linked life insurance policies

S. 22(9) and 23(9) of the Insurance Ordinance, 2000, empower the SECP to limit the expenses of With Profits, and unit-linked and other investment policies, respectively. Expenses in excess of the limits cannot be passed through to policyholders.

SECP Circular No 6 of 28 Apr 2006 prescribes the limits, starting from 2007. The limits will reduce each year after 2007, till they reach the ultimate level in 2012. A second layer of phasing is that insurers are permitted higher expenses in the first 10 years of their business in Pakistan.

The phasing to 2012 gives insurers ample time to plan compliance. The phasing by duration of business in Pakistan is generous to new insurers, and should encourage their entry. At present, there are only five: State Life and four private sector life insurers.

Unit-linked and other investment policies have a margin for investment management charges at 1.50% of the fund value. This margin is not allowed to With Profits funds.

Big changes in UK pension tax regime

The tax regime in the UK for all tax privileged pension schemes was integrated with effect from 6 April 2006. The new regime replaces the previous separate regimes for different forms of pension provision. It covers employer-sponsored schemes and voluntary individual schemes. It applies to all past and future benefits.

The new regime contains much detail. We describe some features in broad terms. Anybody affected by the new regime should take appropriate UK professional advice.

(1) For any individual, a total "input" up to 100% of salary or £ 215,000, whichever is lower, may be made in any tax year on a tax-free basis. This includes inputs to all schemes for the individual's benefit, whether by him or by his employer, if any. Members of employer-sponsored schemes may also contribute to individual voluntary pensions.

The figure of £ 215,000 will rise by £ 10,000 pa, to £ 255,000 in year 2010-2011.

Under a Defined Benefit scheme, the input is the increase during the year in the value of the pension, computed on a statutory basis.

The Life Time Allowance (LTA), described below, limits the apparent generosity of the tax-free inputs.

(2) Inputs are allowed beyond the tax-free limit, subject to tax at 40% on the excess.

(3) How tax relief is allowed on the input depends on whether it was made by the individual or by an employer. No relief is given after reaching age 75.

(4) If the total value of all pensions for any individual, built up over life time, is more than the Life Time Allowance, the excess will ultimately be taxed at 55%. The law lays down how the LTA is calculated. The LTA will be £ 1.5 million in tax year 2006-07, rising to £ 1.8 million in 2010-11.

There are transitional provisions for cases where more than the LTA had already been built up by 6 April 2006.

(5) The minimum retirement age, currently 50, will become 55 from 6 April 2010.

(6) On retirement, 25% of the individual's pension "fund" may be taken as a tax-free lump sum. Those whose existing pension rules permit more than 25% of their pension

"fund" as a tax free lump sum, are given some protection.

(7) Under a DC scheme, the amount left after taking 25% can either be used to buy an annuity; or taken as "income draw down". The maximum income draw down up to age 75 will be 120% of a basis annuity, determined by the Government Actuary's Department (GAD).

If income draw down was selected, then at age 75 the pensioner may either buy an annuity, or continue income draw down in the shape of an "Alternative Secured Pension" (ASP). The maximum ASP is 70% of a basis annuity determined by the GAD.

There is no minimum ASP. The pension fund can be left in tact. The investment income on it will remain tax free. The pension fund could be used to pay a dependant's pension. On the pensioner's death, any remaining balance goes to his estate, subject to any applicable tax.

(8) As before, the investment income of the fund is generally tax-free, and the pension is generally taxable. It is "EET".

(9) A person can draw pension and continue to work for the same or another employer.

A person can draw the 25% tax free lump sum at the minimum retirement age; need not take the remaining 75% as pension; and continue to work for any employer.

Delays in issuing insurance policies

When both towers of the World Trade Centre were destroyed on 11 Sep 2001, the insurance policies had not been fully delivered. This lack of "contract certainty" resulted in complex litigation about the claim.

Delays in policy delivery also occur in Pakistan. We have seen instances where policies were delivered 6 months after the date of commencement of risk.

Most contracts come into force when all parties sign. But policies are "contracts of adhesion", signed by only the insurer. A cover note or other document simply confirms commencement of cover. The insured can read his full rights only when he gets the policy. Only then can he get to know his obligations, under warranties, or otherwise.

Some custom-made covers are complicated, and the policy takes time to draft. It is not in the insured's interest for the cover to be deferred until the policy is issued. But most policies are standard.

The UK Financial Services Authority has stipulated "contract certainty at inception" by 1 January 2007. The UK market undertook to achieve 30% certainty by end 2005, 60% by mid-2006 and 85% by 1 Jan 2007.

Spread of genital HPV in the USA

Genital human papilloma virus (HPV) is a sexually transmitted infection. The web-site of the US Government Centers for Disease Control (CDC) says that 20 million Americans are already infected. 6.2 million get a new genital HPV infection every year. By age 50, at least 80% of American women will have acquired a genital HPV infection.

There is no cure, but in most women the infection goes away on its own. In some cases, results are unpleasant. Very rarely, it results in cervical and other cancers. HPV causes over 70% of cervical cancers.

Genuine school science exam answers?

Water is composed of two gins: Oxygen and Hydrogin. Oxygen is pure gin; Hydrogin is gin and water.

H2O is hot water and CO2 is cold water.

When you breathe, you inspire. When you do not breathe, you expire.

(From *The Rotarian*)