Avoiding the tribunal

There are many things to be aware of when you are the employer, especially with new laws and regulations being brought in all the time. Frank Pons explains

There are more than 70 reasons why an employee might take you to a tribunal, and as an employer you need to be aware of all of them. The reasons for health and safety regulations and employment law are the protection of employees, and employee’s rights.

The penalties for not fulfilling your legal responsibilities can be disastrous. Even claims settled out of court still cost the business on average £7,000, just to cover lawyers’ fees. Not to mention the knock-on effects of such action, like lower moral and adversely affected productivity. So, what things do you need to bear in mind, as an employer in the 21st century?

The minimum wage

Firstly, every employer needs to realise that now, every employee over the age of 21 has the right to expect the minimum wage. Ensure that any workers you have in your practice benefit from a contract that meets this basic requirement.

Working fathers

There has also been provision made for paternity leave. Working fathers can now request a full two weeks leave. This is not something that is open to negotiation – the law is very clear. Employers must be careful not to pressure male employees into not taking this leave. They are entitled to it, and the law is on their side if you prevent them from taking it.

Sexual harassment

Thankfully, we have moved forward as a society enough to recognise that there are certain things in the workplace that are simply unacceptable. Both male and female employees can be offended by sexual harassment, and all employers need to understand this. What one person calls an ‘innocent remark’ might cause a great amount of upset to colleagues may find offensive, and a zero tolerance policy must be adopted.

Safe equipment

You employees should not be in unnecessary danger at work, and employers have to grasp the potential consequences of cutting corners in terms of safety equipment.

Under current legislation, every single employee has the right to expect equipment that functions to a safe standard. None of your employees should be at risk because a piece of equipment is faulty or damaged. It is absolutely crucial that all equipment is regularly inspected and maintained, and that all employees have access to safe equipment.

Age discrimination

It is not acceptable to discriminate against someone because of their age. How would you feel, for instance, if somebody told you that you were too old to fulfil a certain task? This sort of thinking has no place in the modern working environment and employers are urged to recognise that the law is well and truly on the side of the employee in this case. Employees must be judged on merit, not on age.

There are many things to be aware of when you are the employer, and with new laws and regulations being brought in all the time, it is absolutely crucial that you stay up to speed. Ensure that your human resources provider can provide you with information and support in comprehending just what sort of comments, behaviour or accident might lead to a costly tribunal, and put all the necessary steps in place to make sure that these situations do not occur.

"Would you like a new relationship? One you can rely on".

Dental Air has one of the best customer service reputations in the dental industry and with our fast call out times, it is no surprise that we are the leading supplier of oil-free compressed air packages.

Freephone 0800 542 7575 to book a survey or to receive your FREE ‘Practice Managers Guide’
Fund performance – the cost

If you’ve an ISA or pension, it’s likely the money’s invested in an ‘active’ fund. ‘Passive’ funds are the alternative and are usually cheaper. Confused? Ray Prince unravels the jargon

There is so much terminology used to describe the charges levied by either type of investment that it is easy to get confused. So, what is the difference between the annual management charge and the total expense ratio? And does the total expense ratio actually describe the total costs applicable to the fund?

What are the options?

Active Fund Management:
The goal of an actively managed fund is to ‘beat’ the market (or a specific market index). An active fund manager uses research and market forecasts to select securities that the manager feels will increase in value over time. While the value of the investment is, in the manager’s opinion, at its peak, the manager sells the security.

Passive Asset Class Investing:— A passively managed fund seeks to match the investment performance of a specific target index or asset class. The passive fund manager does not actively buy and sell securities in an effort to beat the market. Rather, the manager simply holds all, or a representative sample, of the securities in the index or asset class.

What are the charges?

Let us start with the terminology. The annual management charge is the cost levied by the fund manager for running the fund. This ranges from 0.1 per cent in the case of some passive funds/trackers to 1.75 per cent or more for certain active funds. Funds also incur ongoing costs such as custodian, accounting and legal fees. The total expense ratio (TER) is the sum of both sets of charges. However, this is by no means the end of the story.

The TER takes no account of the cost of implementing transactions within the fund. These depend on the level of turnover of stocks within the fund and total costs incurred for each sale and acquisition. In the Financial Services Authority’s (FSA) occasional paper on the cost of retail investments (see link below) the average cost of a deal in a UK fund has been estimated at 190 basis points (1.8 per cent per year to you and me).

Portfolio turnover rates (PTR) describe the proportion of the fund that has been turned over due to sales and purchases in each accounting year. They are calculated according to a formula prescribed by the FSA. The greater the number of stocks and acquisitions, the higher the PTR. Busy funds cost more but supposedly this is because they are meant to deliver greater returns. I will consider this further with you in a future article.

It is now a requirement for PTRs to be published for UK Unit Trusts and Open Ended Investment Companies (OEIC) within a document known as the simplified prospectus. It is available upon request from the company your money is invested with. You still have to hunt around for these figures as they are often quoted separately from other cost data. The key is the PTR adds cost to the ongoing management of any type of fund and it is imperative that you know what costs apply to your own funds.

Actual cost comparisons

Let us now turn to the question of actual cost comparisons between active and passive funds. If we take the UK all companies sector as an example, most actively managed funds have an Annual Management Charge (AMC) of 1.5 per cent. They also have other expenses declared of typically another 0.1 per cent to 0.2 per cent a year. On average, the TER amounts to around 1.6 per cent a year.

Compare this with, say, Fidelity Moneybuilder UK index tracker, which has an AMC of 0.1 per cent and a total TER of 0.28 per cent. Therefore, before even considering portfolio turnover costs, the average actively managed fund has to deliver a further 1.35 per cent or so each year, without taking any more risk than the index, in order to simply match a tracker. You then have to ask yourself: Is it worth paying extra to simply keep up with the index?

Portfolio turnover rate

Moving to the effect of portfolio turnover, if you take the average PTR of an active UK fund of 70 per cent to 90 per cent (page 47 of the FSA paper), you end up with costs in addition to the TER of between 1.26 per cent and 1.62 per cent. Some funds incur substantially greater costs than this. For example, the Fidelity Special Situations fund has a PTR of 137 per cent, leading to an overall portfolio turnover cost of 2.56 per cent. Quite a few active funds have PTRs of over 200 per cent, adding to turnover costs of 3.8 per cent in addition to the TER.

Contrast this with a typical tracker. The Foreign and Colonial FTSE All Share Index tracker has a PTR of 0 per cent. Others have PTRs of between 10 per cent and 20 per cent. To get the total annual cost, you have to add the PTR cost to the TER. This means that the actual annual cost of the average active UK fund amounts to between 2.86 per cent and 5.22 per cent.

In the case of Fidelity Special Situations, you get total annual fund costs of 3.96 per cent. In contrast the F&C FTSE All Share Index tracker has combined costs of 0.39 per cent. This means the average active fund has to outperform trackers by up to 2.94 per cent without taking any more risk.

Quite apart from wondering whether active funds can recover the extra costs and consistently achieve returns well in excess of them, you have to ask just how much cost an equity-based investment can put up with before the prospective returns on reasonable assumptions are reduced to a level no better than cash (similar to what you would earn in a savings account with your bank or building society).

If this occurs, you will have incurred all the risk associated with equity-based investments but attracted none of the gains.

(The Portfolio Turnover Rate average figures have been taken from the Financial Services Authority. Full details are available at http://www.fsa.gov.uk/press/occpapers/OP06.pdf.)

Taking action

If you have not heard of Portfolio Turnover Rate or Total Expense Ratio, don’t worry. The good news is that you are aware of these concepts now, therefore the key is to take positive action. If you deal with an adviser, ask them to research what your total investment costs are and what impact these are having on your investments. Once you know these figures, find out more about the passive investment approach to managing your money. If you hit any ‘brick walls’ and would like to speak to us, our contact details are below.