Employee Benefits

Your pension: evaluating the impact of automatic enrolment

As you are probably aware, your company operates an auto enrolment pension scheme, which sees both you and your employer make contributions to your pension pot.

Since October 2012, when the legislation relating to this was introduced, more than 10 million employees have been automatically enrolled, while more than 1.46 million employers have met their auto enrolment duties.¹

Brilliantly, this means pension schemes have become accessible to millions of employees who have not previously had the opportunity to join a good quality employers workplace savings scheme and, for this alone, you could say it has been a success. April saw the (planned) final part of the phasing in of contribution increases under the regulation.

Keeping an eye on things...

The Department of Work and Pensions has evaluated the impact of automatic enrolment since inception, publishing a review in December 2017 that looked back over the first five years of the legislation. In this review, the department makes several recommendations aimed at building on the successes achieved to date. These include:

• encouraging younger people to save for their future by lowering the age of automatic enrolment from 22 to 18

• considering the case for further increasing minimum contribution levels – they rose for the first time in April 2018, with April 2019’s increase seeing minimum contribution levels reach a ‘steady state’

• supporting part-time and low-paid workers to build better pensions by calculating pension contributions from the first pound of earnings in all cases, rather than from the current lower earnings limit (£6,136 for the 2019/20 tax year)

We see all these proposals as being positive – by lowering the age of automatic enrolment by four years, for example, you could benefit from four additional years of pension savings, not only from you but also from your employer (and the Government in the form of tax relief).

So, what does that mean for you?

With the minimum contribution levels now significantly more than the 2% minimums originally introduced, it is vital you use these to help you ensure you have a level of income in retirement that meets your needs.

Therefore, you need to consider what you want your retirement to look like. This includes thinking about things such as what you want your living costs to be – do you want to run a car, take holidays abroad or help your adult children with financial gifts, for example? All these things need to be thought about when it comes to working out whether the savings you have towards pension provision are adequate.

Looking ahead

Whatever your views on the pension regulations and mandatory contributions, you can be sure of two things: one, we haven’t reached the end of the journey yet, and two, the pension landscape will continue to develop, with regulation encouraging employers to help their employees plug the savings gap with good quality workplace savings.

Whatever happens, the ultimate aim is to improve the retirement outcomes for you, the savers, and that is something that – regardless of any changes – shall remain.

10 things to know about… ISAs

Most people will have heard of what an Individual Savings Account (or 'ISA') is, but did you know how many types of ISAs there are, or, how they differ?

If you answered ‘no’ to either of those (or both), no worries – we’re here to help. Now, while the most commonly known are cash ISAs (used primarily as a savings account or perhaps a ‘rainy day’ fund that you can dip in and out of with relative ease, providing you with additional monies you require a moment’s notice) that’s just the start – here are ten further things to know about ISAs...

1. **Tax free**

Any interest you earn from a cash ISA isn’t liable for income tax. In addition, if your stock and shares ISA grows, this growth isn’t liable for capital gains tax, nor are the dividends (income) generated by the ISA. ISAs in your asset portfolio can be used to provide tax-free income in your retirement.

2. **Allowance**

There is a limit on how much you can contribute to ISAs in a tax year. Currently, for the tax year 2019/2020, this allowance is £20,000 per person (not per ISA). Not so long ago, the ISA allowance used to be split between cash (see 5) and stocks and shares (see 6), meaning there were individual limits applied to both. Now, the limit can be paid into either, or a combination of both! There are, however, additional rules to a lifetime ISA (see 8), while junior ISAs (see 7) have a different allowance altogether!

3. **Flexibility**

You can draw funds from your ISA and replace the amount within the same tax year without losing the tax benefits or using up any further allowance in that tax year if your ISA is ‘flexible’. This is useful if you find yourself making a withdrawal from your ISA only to discover you took too much out and would like to re-contribute the excess back.

4. **One ISA/transfers**

Please be aware you are also restricted to pay into one of each type of ISA (cash, stocks and shares, lifetime and innovative finance) per tax year only. Yes, you can open as many ISAs as you want, but can only pay into one of each type. For example, you could save £10,000 in cash, £8,000 in stocks and shares and £2,000 into a lifetime ISA.
5. Cash ISA
As mentioned previously, these are the ISAs most people will be familiar with. They are available from most high street banks and are more frequently showing up online through ‘online only’ banks. There are two types of cash ISA – instant access and fixed rate. Instant access does exactly what it says on the tin – you are given an account to keep and you can add/withdraw your money at a moment’s notice. You will also be given an interest rate, which is usually just slightly higher than the current Bank of England base rate. Fixed-rate ISAs, meanwhile, are accounts that are locked for a pre-defined period – for example 1, 2 or even 3 years. During this time, some may allow you to make regular or ad-hoc contributions, but you will not be able to access/withdraw your money until the time has elapsed and the account has matured. While you can choose to access it early, you will be faced with a penalty, usually in the form of losing several months of gained interest.

6. Stock and shares ISA
Stocks and shares ISAs are investment-led and are available from some high street banks or, more commonly, through wealth managers/well-known investment product providers. On these, you need to speak to a financial adviser for more information, mainly as they are invested within a suitable risk portfolio and risk tolerance for each individual client and can increase or even decrease in value. They do not carry any guarantees, either, but are targeted with better returns than those of their cash counterparts.

7. Junior ISA
Junior ISAs (or ‘JISA’s) have an annual allowance of £4,368 for the current tax year (scheduled to increase with inflation) and are open to anyone under the age of 18, living in the UK and who does not possess a child trust fund. Available in cash or stocks and shares formats, JISAs automatically convert to an adult ISA at age 18. Unlike other ISAs, money cannot be withdrawn until age 18 unless there are justifying circumstances.

8. Lifetime ISA
Available to the under 40s, lifetime ISAs were introduced from 6 April 2017 as a way of saving for both a house purchase and retirement. There are, however, some restrictions. For one, you can only contribute up to £4,000 per tax year until your 50th birthday. The Government will then add a 25% bonus to your contribution, up to maximum of £1,000 per year. Plus, this £4,000 counts towards your £20,000 annual allowance.

With a lifetime ISA, you can hold cash or stocks and shares (or both). When you reach 50, you cannot contribute anything further into your lifetime ISA, but it will stay open and continue to accrue interest and/or investment returns. You can withdraw your money with no charge only if you are buying your first home, are aged 60+, or terminally ill. For any other reason, you will pay a 25% charge on withdrawing your cash or assets. For your first home, it must: cost £450,000 or less, and be bought at least 12 months after you open your lifetime ISA and with a mortgage. You must also use a solicitor to act for you in the purchase.

9. Innovative finance ISA
Peer-to-peer lending (often referred to a ‘crowd funding’) is a relatively new area for investors. Rather than invest in shares of a company, your money is sent directly to an individual or business in need of a loan. As you would expect, exposure to this area carries that extra bit of risk but may appeal to some investors. Furthermore, peer-to-peer investments are not covered by the Financial Services Compensation Scheme, meaning if the person or company goes bust, you could lose your savings.

10. Inheriting an ISA
As of 3 December 2014, if your spouse or civil partner passes away, you can inherit their ISA savings and add it to your portfolio through an ‘additional permitted subscription’ or extra ISA allowance. This allows – for those couples who have built up an ISA portfolio – for their spouse to continue the portfolio, rather than it being surrendered and losing all the tax-free growth it would have gained through the years.
High earners: things to be aware of in your financial planning

Most people would assume that higher paid, more senior members of staff do not require support with managing their finances.

While that’s understandable, it’s perhaps more likely that such employees are actually time poor, so have less time to focus on their own financial planning.

If you are such an employee, you’ll also (hopefully) be aware that you may be subject to a more complex tax regime. Therefore, it is important you are aware of – and understand – this so you can make the best possible financial decisions.

Here are just a few examples of what you may need to know a bit more about:

A reduction in personal allowance

The level of income available before income tax is applied is known as the personal allowance. This is £12,500 for the 2019/20 tax year, but can vary depending on your personal circumstances. This allowance goes down by £1 for every £2 an individual earns above £100,000. This means the allowance is zero if income is £125,000 or above in 2019/20.

Impact on child benefit

Since 7 January 2013, an income tax charge applies to people who claim child benefit and whose income (or partner’s income) is greater than £50,000 in a tax year. If income is between £50,000 and £60,000, the charge is a proportion of the child benefit received. If it’s more than £60,000, the amount of the charge is the same as the child benefit received.

These reductions can be minimised or avoided altogether – one way is by, when calculating an entitlement to child benefit, making pension contributions that have the effect of reducing income. However, we find many senior employees are unaware they can do this.

Lifetime allowance

The lifetime allowance (LTA) is a limit on the total value of your pension savings (either a lump sum or taxable retirement income) that can be taken without triggering a tax charge. The lifetime allowance for most people is £1,055,000 in the tax year 2019/20.

There are many financial planning options available to individuals to help negate the effect of an LTA charge. However, like the other issues highlighted, many high-earning employees may not to be informed of these options.

Tapered annual allowance

The annual allowance is a limit on the amount that can be contributed to an individual’s pension each tax year while still receiving tax relief. Since the introduction of a tapered annual allowance in April 2016, people with an ‘adjusted income’ (taxable income plus the value of any employer’s pension contributions) over £150,000 may have had their annual allowance for that tax year restricted. This means that for every £2 of adjusted income they have over £150,000, their annual allowance could be reduced by £1.

The maximum reduction is £30,000. Therefore, anyone with an adjusted income of £210,000 or more will have an annual allowance capped at £10,000.

The above points highlight the added complexity involved in the financial affairs of higher earners. However, they can all be eased if you seek the right guidance, as such advice could reduce your tax burden, giving you more disposable income and provision for the future.

As your employee benefits provider, Mattioli Woods would be delighted to help – just talk to your HR department about speaking with us.

Useful contacts

Money and Pensions Service
Bringing together the Money Advice Service, The Pensions Advisory Service and Pension Wise, this Government resource is designed to help UK citizens easily access information to help them make the right financial decisions throughout their lives.
www.moneyandpensionsservice.org.uk

The Pensions Regulator
Contains the latest content and news on pensions. www.thepensionsregulator.gov.uk/individuals

Financial Conduct Authority
The regulator of the financial services industry. You can check the FCA register for authorised firms, read the latest guidance notes and learn about the measures taken to protect consumers such as yourself.
www.fca.org.uk

Department of Work and Pensions
Where you can check your state pension and state pension age.
www.gov.uk/government/organisations/department-for-work-pensions

Samaritans
In times of distress or hardship, Samaritans are there to listen. The phone number 116 123 is free to call 24/7.
www.samaritans.org

Lost Pension Tracking Service
Use this service to find contact details for your own workplace or personal pension scheme, or someone else’s scheme if you have their permission.
www.gov.uk/find-pension-contact-details

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