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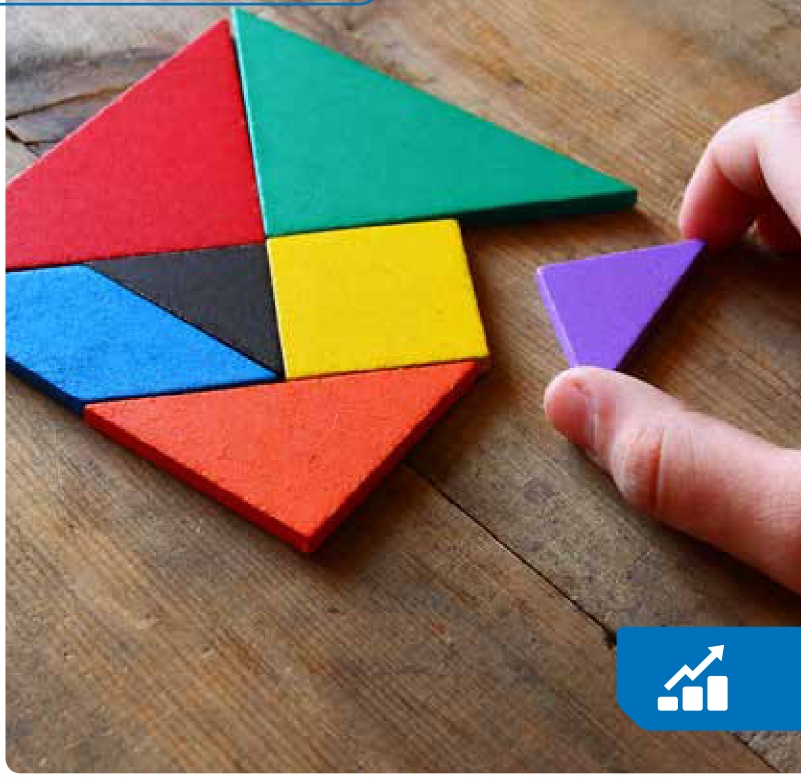

Workplace pensions

How you can make the most of your workplace pension.

Auto-enrolment has changed the workplace pension landscape in important ways. By 2018 it will be a legal requirement for every employer to offer a workplace pension scheme. Every employee over the age of 22 who earns at least £10,000 will have to be enrolled.

Along with the state pension, this means the majority of people in the UK will enter retirement with a number of income streams.

But for many, relying on the state pension and the pot generated by auto-enrolment will represent a significant drop in income, and may not be conducive to the kind of lifestyle they want in retirement. Saving into a personal pension is an obvious strategy to remedy this, but are there other workplace pension options that can be explored?

Auto-enrolment

If you have been enrolled in a workplace pension scheme by your employer, you will have pension contributions deducted from your pay.

Your employer will also make a contribution to your pension and the government will provide tax relief on a portion of the contribution.

The auto-enrolment legislation sets a minimum level of contribution (relating to a percentage of the employee's earnings) that each party must make, that is set to rise over the coming years.

Date	Minimum employee contribution	Minimum employer contribution
Before April 2018	1%	1%
April 2018 - April 2019	3%	2%
After April 2019	5%	3%

An employer or an employee can choose to contribute more than this if they choose. 8% may seem like a sizeable chunk of your earnings, but it is worth going over the numbers and doing some projections to see how much it is likely to give you over your working life.

We can provide guidance on any part of retirement planning.

Beyond auto-enrolment

While auto-enrolment provides some assurance that the majority of workers in the UK are actively contributing to a workplace pension, it does not mean that there are no other options to be explored.

It is important to note that an individual is always able to opt out of the workplace pension their employer has chosen. Some people may want to look for options to utilise alongside auto-enrolment while others may want to be in sole control of what kind of pension saving they are doing.

As always, it is prudent to consult a professional adviser when engaging in financial planning regarding something as important as your future retirement income.

Salary sacrifice

A salary sacrifice scheme is an arrangement whereby an employee and their employer agree to change the terms of their employment contract in order to reduce the cash entitlement of the employee.

This sacrificed cash entitlement is usually made in return for a benefit of some kind. An example of a salary sacrifice scheme are those relating to childcare vouchers.

Harbour House 1 Shore Street
Lossiemouth IV31 6PD Moray
01343 814000 david@campbell-mcconnachie.co.uk

www.campbell-mcconnachie.co.uk

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Entering into a salary sacrifice arrangement could mean an individual's entitlement to contribution-based benefits such as the state pension is affected.

If an employee sacrifices some of their cash entitlement, the employer can (if the pension scheme permits them to do so) invest the whole amount into a workplace pension fund. The employee will have no income tax or national insurance (NI) liability on the invested amount.

Contact us about your workplace pension options today.

Group personal pensions

An employer can offer employees a group personal pension (GPP), which even though it is a type of personal pension can still be arranged by them.

The contract for the GPP is between the employee and the contract provider, but an employer can choose to contribute into the scheme. There is no obligation for them (as long as the GPP is not their auto-enrolment scheme) to do so and they can set their contributions at any level they wish.

GPPs are often offered in volume to employers for a discount which may in turn lead to lower charges than individual personal pensions.

GPPs are flexible, in that you can continue to contribute even after you change jobs or transfer the pot into a new arrangement with your new employer.

Stakeholder pensions

Stakeholder pensions are a form of defined contribution personal pension. The government has a set of minimum standards for these schemes that mean that they have limited charges, low minimum contributions, flexible contributions and charge-free transfers.

Again, your employer may choose to contribute to the scheme. Other people can also choose to contribute and you may contribute to other people's schemes.

The providers of stakeholder pensions are often insurance companies or investment platforms and contributions are usually invested in stocks and shares.

Contribution limits

There is no legal limit to the amount of different pension schemes that a person can belong to, but there are limitations on the total amount that can be contributed to all schemes in a given year.

The annual allowance

The limit placed on the amount that a single individual can put into defined contribution schemes is called the annual allowance.

The annual allowance is currently £40,000 but a lower limit applies to some individuals who have already begun to draw from their pension. The allowance also includes contributions made by your employer or anyone else that contributes to a pension scheme on your behalf.

Exceeding the allowance will result in a charge and a loss of any tax relief on contributions that exceed the limit. The charge will be added to your taxable income for the year in question, which may then impact your tax liability.

It may also be possible to bring forward any unused allowance from the previous 3 tax years.

Tapered annual allowance

As of April 2016, high earners have seen their entitlement to the annual allowance reduced.

For every £2 of income above £150,000 a year, the individual's annual allowance is reduced by £1. The maximum amount that the annual allowance can be reduced by is £30,000, meaning that someone with £210,000 of annual income will have an annual allowance of £10,000.

The money purchase annual allowance

If you have begun to draw income from a pension pot and still want to pay contributions into a defined contribution pension scheme, a reduced annual allowance of £10,000 will apply. This is known as the money purchase annual allowance (MPAA).

It was announced in Autumn Statement 2016 that the MPAA will reduce to £4,000 in April 2017.

The MPAA will apply if you have withdrawn 25% of your pension pot tax-free and includes contributions made by you, your employer and any other individual.

The MPAA comes into effect the day after you withdraw the 25% lump sum and unused allowance cannot be brought forward from previous tax years.

While auto-enrolment means that the majority of workers will now have regular savings going into a workplace pension scheme, it does not mean that there are not important decisions for the individual to make. Taking an active approach to retirement planning is as important now as it ever was.

Our expert team can provide support and guidance during any part of the retirement planning process.