

Pensions - Snakes and Ladders anyone?

Do you remember that childhood game of Snakes and Ladders? When you landed on a ladder and took a massive leap forward only to roll the die again and slip down a slippery snake? Well, that's a little how I see pensions over the last 7 or so years ... To stop you accidentally sliding down any "snakes", I thought we would flag a couple of important pension changes due in April 2014 and provide a "warning" about Auto Enrolment.

Snake number one - a reduction in the amount you can accumulate in your pension fund

From next April the maximum anyone can accumulate in their pension (the snappily named Lifetime Allowance or LTA) will reduce from £1.5m to £1.25m.

This is likely to impact those with pension savings:

- which are either already above £1.25m or
- are expected to exceed £1.25m when they come to draw pension benefits.

£1.25m may sound like a reasonable amount of money but this cap will bite on a less obvious audience; those who are younger with smaller 'pots' now but who will benefit from years of the magic of compounding interest. Those who exceed the limit will be taxed on the excess at 55%.

Those at risk have a few options which allow them to maintain a LTA of up to £1.5m:

- Fixed Protection 2014 – the quid pro quo being that they will need to stop future pension contributions from 5/4/2014, and/or,
- Individual Protection – for those who have a pension fund of £1.25m as at 5/4/2014. These individuals can continue to pay pension contributions but are still capped at a maximum of up to £1.5m.

Importantly, those with Enhanced Protection and/or Primary protection from 2006 or Fixed Protection 2012 will maintain their protection (those with Enhanced or Fixed Protection must pay no new contributions).

Snake number two - pension contribution limits to fall

Some of you will remember the heady days of "Pensions Simplification" when an individual was able to pay up to £245,000 a year into a pension. No more! The maximum anyone can pay into a pension, known as the Annual Allowance, was reduced to £50,000 a few years ago. This is set to fall again to £40,000 from April 6th 2014.

Action points

The TRH advice team are currently assessing all of our clients to establish who may be affected by the falling LTA and the reduction in annual pension contributions. Those affected will be contacted individually. If you have any questions in the meantime please do let me know.

A potential Snake and a potential Ladder - NEST and Auto Enrolment

First the "ladder" ... Many of you will have heard of Auto Enrolment (AE) and NEST. AE is a Government initiative aiming to encourage people to save for retirement; you may have seen the advertisements featuring a number of celebrities.

The idea behind AE is to make employers responsible for enrolling eligible employees into a suitable pension scheme with minimum contribution rates. It is being phased in and has already started with the largest employers in October 2012 and will end with the smallest employers in April 2017.

The National Employment Savings Trust (NEST) is a low-cost pension scheme as an option for employers of all sizes. It is designed to simplify decisions for the employer.

Why is this important to you?

Second, the "snake"... The majority of our clients will already be members of their employer's pension arrangements or making their own provisions. As such, there are two key things about AE:

- Individuals who are already maximising annual contributions, via a non-workplace pension should be careful about finding themselves Auto Enrolled and inadvertently over-contributing to pensions. The price will be a tax charge of up to 45% (your marginal rate of income tax).
- An "accidental" AE may invalidate Enhanced Protection or Fixed Protection (2012 or 2014) meaning that any excess pension fund over the LTA is taxed at 55%

If you have been contacted about joining workplace pensions, Auto or Contractual Enrolment or NEST then please let us know as it may affect the pensions planning you already have in place.

I trust this note (and reminder of a more simple time in childhood!) is helpful; as always, we welcome all feedback and questions. Thanks to Patrick for helping me with the technical aspects of this note. I'll stick with the board games ...

Best wishes

Ruth

November 2013

Notes and risk warnings

This article is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. This article does not represent a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed.