FINANCE UPDATES

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AUTO-ENROLMENT: THE FINAL INCREASE?

Another minimum contributions rise is upon us.

When auto-enrolment was first introduced back in October 2012, nobody could have envisaged it being a policy as widely admired as it is today.

Before that, workplace pensions had fallen out of favour, being regarded as a burden by employers, and had come to be seen as a privilege enjoyed by very few, mostly older workers.

Nowadays, through the force of the law, sacrificing a portion of your monthly salary to put towards your pension pot is the norm for most employees, wherever you work in the UK.

In fact, the number of employees automatically enrolled into a workplace pension in the UK passed 10 million for the first time in February 2019.

Passing that milestone prompted Work and Pensions Secretary Amber Rudd to hail the scheme as an “extraordinary success story” and a “remarkable achievement”.

It has certainly changed the way workers save, both pushing and encouraging employees to prepare for retirement.

The first contributions rise was safely navigated in April 2018, and another is upon on us this month: from 6 April, the minimum combined employer-employee contribution into workplace pensions increases from 5% to 8%.

WHAT’S CHANGING?

Workers who are between the age of 22 and state pension age, and earning more than £10,000 a year, are used to sacrificing a percentage of their salary towards their workplace pension.

Previously, most people in full-time employment would put 1% of their monthly pay packet towards their workplace pension in return for their employer matching that minimum contribution.

This time last year, the minimum staff contribution for those who qualify rose from 1% to 3% at the same as employers’ minimum contributions doubled from 1% to 2%.

From 6 April 2019, all qualifying employees will see their minimum contributions increase from 3% to 5%.

Employers will see their minimum contributions rise from 2% to 3% at the same time, bringing the total combined minimum contributions to 8%.

The good news, for employees and their employers, is that this increase marks the final stage for the current auto-enrolment regime – for now.

HOW IS IT CALCULATED?

Minimum contributions are based on an employee’s **qualifying earnings.**

This means that the first £6,136 of earnings in 2019/20 does not count for the purposes of auto-enrolment, and anything over £50,000 is also excluded.

For example, if you earn £40,000 your qualifying earnings in 2019/20 will be £33,864. In the case of somebody earning £20,000, only £13,864 of their earnings would be pensionable.

For 2019/20, your combined minimum contributions will be 8% of your qualifying earnings – not your total salary.

STAYING IN OR OPTING OUT?

It’s widely recognised that saving into a workplace pension forms the basis of most retirement saving strategies in the UK, mainly because of the employer contributions on offer.

Last year, when combined contributions on qualifying earnings rose from 2% to 5%, research from NOW: Pensions found that 84% of workers were happy to embrace the increase.

“The vast majority are happy to pay in a little bit more each month, safe in the knowledge their employer will be doing the same,” said Troy Clutterbuck, the firm’s chief executive.

This year, with combined contributions jumping from 5% to 8%, the same firm predicts 77% of qualifying employees will carry on saving into their workplace pension.

While that represents a slight rise in the number of people who are expected to opt out after the latest increase comes into force, one would assume most of those are nearing retirement.

It is easier to understand savers opting out of their workplace pension if they have enough funds to retire on in the next year or two.

That theory correlates with Government research, which shows that 9% of over-60s are likely to opt out, compared to only 7% of workers under the age of 30.

An important point to consider in this dilemma is that the impact on take-home pay caused by the latest increase should also be softened with the personal allowance being raised to £12,500.

With the national living wage going up at the same time, this should go a long way to ensuring participation rates will remain almost as strong as they are in 2019/20.

NEW EMPLOYEES AND OPTING DOWN

Another option, although this is solely for newly-enrolled employees, is to step down to a lower contribution rate within the first six weeks of starting a new job.

If you go down this route you will no longer qualify for the scheme, and your employer will not be legally bound to make minimum contributions of 3% towards your pension from this month.

Your employer cannot encourage or pressure you to opt out of auto-enrolment or reduce your contributions, and they will be required to re-enrol you every three years.

Whatever your reason, speak to one of our professional advisers before making any changes to your workplace pension.

SOLVING THE SELF-EMPLOYED PUZZLE

Chancellor Philip Hammond's latest Budget in October 2018 revealed plans for the Department for Work and Pensions to solve the self-employed conundrum.

Around 4.8 million self-employed people in the UK were excluded from the introduction of auto-enrolment in October 2012, and the problem remains unsolved today.

The latest strategy paper released in December 2018 explored options to use invoicing and accounting systems to enable automatic pension contributions from the self-employed.

The paper focused on plans to trial pension savings for the self-employed, having found that only 32% of sole traders in the UK regularly save towards their retirement.

It also found that 54% of those self-employed workers polled had set money aside for their retirement in the last 12 months.

More than a third (36%) of respondents believed property was the best way to save for their retirement, with most of those expecting it to provide better returns than a pension.

Surprisingly, it did not follow up on previous suggestions that the self-assessment tax process could be used to auto-enrol the self-employed into retirement saving.

It did touch on the role Making Tax Digital could play, with income tax self-assessment returns also set to be filed digitally.

THE IMPORTANCE OF SAVING

Whether you are self-employed or are relying solely on your workplace pension, our advisers can help you plan for your retirement.

Failure to take action now usually results in you working longer and potentially having less money to fund your retirement.

In theory, the earlier you start saving for your retirement the easier it should be, especially in receipt of mandatory employer contributions.

Your employer can also offer more than the mandatory minimum of 3% in 2019/20, making workplace pensions a solid foundation to start saving for your retirement.

Auto-enrolment is not sufficient on its own to fund a lavish retirement, and our advisers can help you build a solid retirement savings strategy.

Talk to us about retirement saving.