Pensions Talk, December 2015

Budget News

In comparison to recent budgets, this November's Autumn Statement was relatively light with regards to changes to pensions. However there are a few notable changes as follows:

Phased increases for auto-enrolment postponed

The Chancellor has announced that the dates on which minimum contributions to workplace pension arrangements must increase will be delayed and aligned to the tax year.

At the moment, under automatic enrolment and workplace pension legislation, the minimum contributions payable to a pension arrangement must be at least 2% of earnings with at least 1% of this coming from the employer. In this respect, the minimum salary on which contributions can be based is something known as "qualifying earnings". Qualifying earnings are total earnings (i.e. basic salary, overtime, commission, bonuses etc.) between £5,824 and £42,385 (2015/16 tax year). It is also possible to use other definitions of salary, such as, for example, basic salary with no offset or cap.

Previously, the minimum contributions were due to increase for all employers with effect from 1st October 2017 and then again from 1st October 2018. The Chancellor has now deferred the increases so that they must now take place with effect from 6th April 2018 and 6th April 2019. This means that the full contributions required under auto-enrolment legislation are not now due until April 2019, effectively delaying this by a further six months.

The table below shows the new contribution requirements:

	From April 2018		From April 2019	
Salary definition used	Total contributions	Minimum from employer	Total contributions	Minimum from employer
Qualifying Earnings	5%	2%	8%	3%
Alternative basis 1 (see note 1 & 2) – known as Tier 2	5%	2%	8%	3%
Alternative basis 2 (see note 1 & 3) – known as Tier 1	6%	3%	9%	4%
Total earnings – known as Tier 3	5%	2%	7%	3%

Notes:

1. If using one of the alternative bases outlined, you can select any salary definition you wish so long as this is equivalent to at least full basic salary.
2. If using the Alternative Basis 1 (Tier 2), you will need to regularly check that pensionable salary (for example, basic salary) for all members and potential members is at least equivalent to 85% of total earnings for the same group of employees. This check needs to be carried out across the workforce/membership rather than at an individual level. This check will need to be carried out at least every 18 months.
3. If using Alternative Basis 2 (Tier 1), you will not need to carry out the check outlined under 2 although you will note that the contribution requirements are higher. Under this basis, the contributions required between your staging date (i.e. date from which your duties under auto-enrolment legislation commence) and April 2018 must be at least 3% in total (employee and employer) although the employer must pay at least 2% into the pension.

The delays will bring some relief for employers struggling to meet increasing costs of pensions for their employees. At the same time, the delay is expected to save the government approximately £840 million in tax relief. From an employee's point of view however, if their employer restricts pension contributions solely to the minimum requirements, this does mean minimal amounts will be paid into their pension arrangement for a longer period of time resulting in a decrease in their overall pension pot at retirement.

Tax relief consultation delayed

In the July budget, the Chancellor announced that he is looking to reform the way pension tax relief works and a consultation on this subsequently commenced. There were no further announcements made surrounding these changes in this Budget and, other than the provisions already put in place for high earners impacting from April 2016, there were no further restrictive measures put in place. It is expected that further details on any changes will be announced in the Spring 2016 Budget (due March 2016). The delay in issuing these announcements does however point to the fact that it is now likely that some major changes will be introduced.

Equally no further announcements were made with regards to salary sacrifice (also known as salary exchange) although again there was reference made to the fact that this would be kept under review.

If you would like to look at the announcements made in the July budget, you can access a copy of our July Newsletter here.

Delay to Second-hand Annuity Market

In March 2015, the government announced that it would like to allow those who have already purchased an annuity to sell the income they are receiving, in return for a lump sum. The idea behind these proposals was to allow those who had already entered into an annuity contract prior to the new pension freedom, which came into effect from April this year, to effectively access this money. Initially it was intended that new rules would be introduced from April 2016 although it has now been announced that these proposals will be delayed until 2017. Further details on this, and how this is expected to work, will be announced shortly.

If you would like to look at the previous announcements made in this respect you can click here to access a copy of our previous newsletter.

State Pension Increases

The State Pension system is due to alter for those who reach State Pension Age on or after 6th April 2016. Those who reach (or reached) State Pension Age before next April, will potentially have a pension made up of two main elements; the Basic State Pension and the State Second Pension. Some people may also have other elements such as predecessors to the State Second Pension (known as SERPs and the Graduated Pension Scheme) or a Pension Credit. For those reaching State Pension Age on or after 6th April 2016, the two tier system will be replaced with a single-tier pension.

From next April the full, weekly State Pensions payable will be as follows:

- Basic State Pension - £119.30
- Single-Tier Pension - £155.65

The State Pension system and the changes being introduced from next April are unfortunately not straightforward. For more details on the changes to the State Pension and the requirements to receive the full amount, please click here.

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