Fortunately this week's Budget was relatively light in terms of pensions and related benefits. The threat of a major upheaval to the pension's tax relief system didn't come to fruition. Whether or not this has simply been postponed remains to be seen and the introduction of the new Lifetime ISA may well be a step towards the proposed Pensions ISA.

Lifetime ISA

From April 2017, anyone aged between 18 and 40 will be able to open a Lifetime ISA account and continue saving in this up until their 50th birthday. Individuals can save up to £4,000 a year in the ISA and the Government will pay an additional 25% bonus into the account at the end of each tax year.

Once in the account, this can be withdrawn to purchase their first home (on a property worth up to £450,000). Alternatively the money can be taken out at any time after age 60 and can be paid out tax free. It is possible to withdraw the money before age 60 (other than for a first time house purchase) but this will mean that the Government bonus (plus any interest or growth on this) is lost. In addition there will also be a 5% charge for early withdrawal.

How does this compare to a workplace pension?

One of the issues this does present is that it may make it difficult for an employee to decide which is right for them. Some of the key differences between the two types of saving are as follows:

- In most cases, an employer must pay into a workplace pension if the employee pays in also. There is no such requirement with a Lifetime ISA. This means that if an employee puts all their savings into a Lifetime ISA they are missing out on the contribution from their employer. In many cases this is a valuable benefit which will often match or exceed that paid in by the employee.
- For a basic rate tax payer, the tax relief is in effect the same. For example, if someone paid £80 net into a pension, this would be grossed up to £100. In the same way £80 paid into a Lifetime ISA with the addition of a 25% Government bonus would also be equivalent to £100. However, with a pension the tax relief is given as soon as the money is received into the pension. With the proposed Lifetime ISA, the "bonus" will be added at the end of the tax year.
- Tax relief is effectively restricted to basic rate under the Lifetime ISA. Under a pension (at the moment at least!) an individual is able to receive tax relief based on their marginal rate of tax.
- The Lifetime ISA can be withdrawn early if used to purchase a first home. There is no such allowance with a pension.
- If the money within a Lifetime ISA isn't withdrawn to purchase a first home (or some money remains left within this after a house purchase), the excess can be taken from age 60 onwards and can be accessed tax free. A pension can be taken at any time from age 55 (although this

is due to increase). 25% of the amount withdrawn from a pension will be tax free with the remainder subject to Income Tax.

- With a Lifetime ISA, the money can be withdrawn before age 60 (other than for purchase of a first home) but the Government bonus will be lost and a 5% penalty will apply. A pension can only be accessed before age 55 if the member is in serious ill health. However it can be accessed before age 60, with no loss of the tax relief added and in most cases there are no penalties for early access.

There are also other considerations which will need to be taken into account in order to fully compare the two forms of saving such as what investment opportunities there will be under the new Lifetime ISA (most likely this will operate on a Cash ISA basis) and what charges will apply to this new savings vehicle.

Clearly for some people there may be some overlap between workplace pensions and Lifetime ISAs. What is right for an employee may depend upon their age, what scope they have to pay into a pension, the rate of tax they pay and if they are already a home owner. Another factor to consider is how much the employee needs to pay to obtain the maximum pension contribution from their employer. Some younger employees, who are looking to save over and above this contribution limit may want to save the excess into a Lifetime ISA. Another area where this may be relevant could be for those who are restricted to a reduced Annual Allowance following the rules impacting on high earners which come in from April 2016. Admittedly, given the age restrictions, the number of people this could apply to may be limited although some may be able to use this to perhaps fund savings for a younger spouse or partner.

In addition to the new Lifetime ISA, the standard ISA allowance will rise from £15,240 per annum to £20,000 per annum from April 2017.

In brief

New Lifetime ISA to be introduced for 18 to 40 year olds from April 2017.

Can pay up to £4,000 a year with 25% Government bonus.

Can withdraw to purchase own home or take out tax free from age 60.

Employees need to consider alongside workplace pension and understand the value of the contribution the employer pays.

No change to salary sacrifice

In the past two Budgets, the question over whether or not the salary sacrifice would be removed or in some way limited has been raised. Again, this was an area where many expected some changes in this Budget. However, whilst it was noted that the intention is to consider limiting the range of benefits that can be provided via salary sacrifice schemes, it was specifically stated that it is intended that pension saving, childcare and health-related benefits such as Cycle to Work, should continue to benefit from Income Tax and NIC relief when provided through salary sacrifice arrangements.

Insurance Premium Tax relief to increase

We have already seen an increase in Insurance Premium Tax from 6% to 9.5% which took effect from November 2015, however it has now been announced that this will further increase to 10% from October 2016. As well as impacting on things such as motor and household insurance, this increase will also impact on schemes such as Private Medical Insurance and Dental Insurance. This will mean an increase in cost for these type of arrangements for employers and potentially also for employees.

Future changes to help employees with their pensions

Potential future changes were also announced. These were aimed at helping employees with their financial planning and understanding of their pension arrangement.

The first is the potential introduction of a "Pension Dashboard". This is something that has been considered for some time and aims to provide one portal where an individual can view all of their pension savings. The idea behind this is to help those who may have multiple pension arrangements with several different pension providers. Obviously introducing such a system will come at a considerable cost (to be funded by the pensions industry) and involve a significant amount of work to get all the information available in one place but could be invaluable for employees who regularly change jobs. The Government's intention is that this will be launched by 2019.

The Government is also to consult on introducing a Pension Advice Allowance. This will potentially allow those aged under 55 to withdraw up to £500 from their defined contribution pension (such as Group Personal Pension or Group Stakeholder Pension) to fund the cost of financial advice. For a basic rate tax payer, when taking into consideration the tax relief they will have received on the payment into the pension, this could save up to £100 on the cost of advice. The Government will also restructure the way public financial guidance is delivered. This includes replacing the existing Money Advice Service, The Pensions Advisory Service and the newly formed (but fairly unsuccessful) Pensions Wise with new bodies.

The Government has also increased the amount an employer can contribute towards financial advice for employees before this becomes a P11D benefit, from £150 to £500.

In brief

New Pension Dashboard to be introduced in 2019 to allow individuals to view all their pensions in one place.

Consultation to begin over Pension Advice Allowance which will enable individuals to withdraw up to £500 from their pension to pay for advice.

Auto-enrolment thresholds for 2016/17

In other news, the thresholds for auto-enrolment purposes for next tax year have been announced.

These will be as follows:

- The earnings threshold for automatic enrolment will remain at £10,000 of total earnings. This is equivalent to £833 a month.
- The lower limit for qualifying earnings will remain at £5,824 but the upper limit will increase to £43,000. Assuming both the employee and employer pay 1% into the pension pot, for anyone with total earnings at or above £43,000, this will increase the annual employer contribution by £6.15 and the net employee contribution by £4.92!

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