Sackers 50 FIFTY YEARS OF PARTNERSHIP

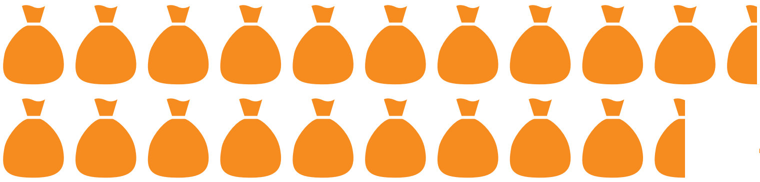
Budget 2016 – A turning point for lifetime savings?

Poll findings

April 2016

While the Chancellor's Budget on 16 March did not reveal a radical reform of pensions tax relief, the introduction of a new lifetime ISA ("LISA") could mark a turning point in how individuals save during their working life. At our recent seminar and webinar we asked more than 70 individuals from the UK's top pension schemes what they thought about LISAs, pensions savings and changes in tax allowances. Here is what they told us:

Do you think that LISAs will be bad for pensions and retirement savings?



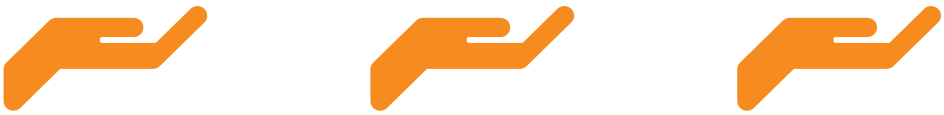
55% no

45% yes

Sackers' view

This may come as a surprise given the headlines which LISAs have generated to date. What would clearly undermine pension savings is if individuals opt-out of their auto-enrolment scheme in favour of a LISA and lose out on valuable employer contributions as a result. How LISAs might interact with or complement the current auto-enrolment framework in the future, and ensuring that individuals understand this, will be key.

Do you think that LISAs could form part of your employee remuneration package in the future?



58% No

38% Expect to consider in future

4% Already considering

Sackers' view

Given that the LISA has only been with us for a month, the proportion of employers who expect to consider introducing a LISA into their remuneration package in future is high. Employers will need to bear in mind their auto-enrolment duties when considering introducing a LISA and take care when communicating the options they are making available. Currently, a LISA would not qualify as an auto-enrolment vehicle and so employers offering a LISA would still need to auto-enrol eligible workers into, and pay contributions to, an auto-enrolment arrangement.

Would you like to offer more education / guidance to members regarding pension savings and retirement planning?

84% yes **16% no**

Sackers' view

This is a positive message from employers and one that the industry will welcome. It seems likely that one of the consequences of the LISA is that there will be a greater need for individuals to have access to suitable financial education and guidance to help them with their savings decisions. This is particularly true for any employers considering introducing a LISA as part of their remuneration package and bearing in mind that, currently, only individuals over 50 with DC savings can seek guidance from Pension Wise.

What is preventing you offering education / guidance currently?

41% Legal concerns / liability risk

34% Money

20% Not knowing what to say

5% Not a priority

Sackers' view

Help could be on the way for those 61% who feel prevented from offering financial education due to not knowing what to say and/or the legal risks they might expose themselves to. TPR and FCA are intending to publish a joint factsheet in early 2017 setting out what help employers and trustees can provide without being subject to regulation. The Financial Advice working group is also tasked with developing and promoting a guide on the top ten ways that employers can support employees' financial wealth, including promoting the free to access public guidance services.

What are you offering employees to mitigate the effect of the Annual Allowance?

55%	22%	11%	10%	2%
Cash supplement	Nothing but likely to review	Nothing and no plans to review	Other	Unregistered arrangement

Sackers' view

Nearly 90% are either currently offering an alternative to pensions for those affected by the Annual Allowance, or will do so in the future. This is a higher percentage than many would have expected. The proportion of members affected by the tapered Annual Allowance is likely to increase over the next few years, as currently individuals may still have unused Annual Allowance from previous tax years that they are able to carry forward to mitigate the effect of the taper. For those high earners who are under 40, a LISA could be an attractive home for any additional cash supplement offered by an employer. So we could see demand for LISAs across the spectrum of the workforce in future.

What are you offering employees affected by the decrease in Lifetime Allowance?

67%	16%	14%	3%
Nothing	Cash allowance	Excepted Group Life Policy for life cover	Unfunded arrangement

Sackers' view

A marked contrast to the proportion of employers offering help to those affected by the Annual Allowance. Whilst we have seen more members affected by the drop in Lifetime Allowance (LTA) in 2016, this does not seem to have changed employer behaviour in terms of the alternatives on offer. It may be that some individuals potentially caught by the LTA are choosing either to take their benefits earlier and so manage their benefits to a value under the LTA or to take the additional employer pension contributions available and pay tax on any excess savings over the LTA.

Conclusion

The introduction of LISAs will mean that employees who are under 40 are faced with more choice regarding their future savings. Going forward, it may be that "pension and retirement savings" are provided from a range of vehicles, including LISAs, and so what we view as a "pension" might change. We expect that many employers will want to help with this choice, both by offering a LISA in the workplace and by providing financial guidance to help individuals make the right decisions. It remains to be seen whether the proposed £500 allowance for tax and National Insurance relief on employer arranged financial advice will be sufficient incentive to encourage employers to offer financial advice in the workplace. At the same time, employers are also faced with how to deal with members whose benefits exceed the tax allowances, where the biggest impact may be yet to come.

To view the webinar please visit: www.sackers.com/knowledge/videos

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