Barnett Waddingham
a true partnership approach

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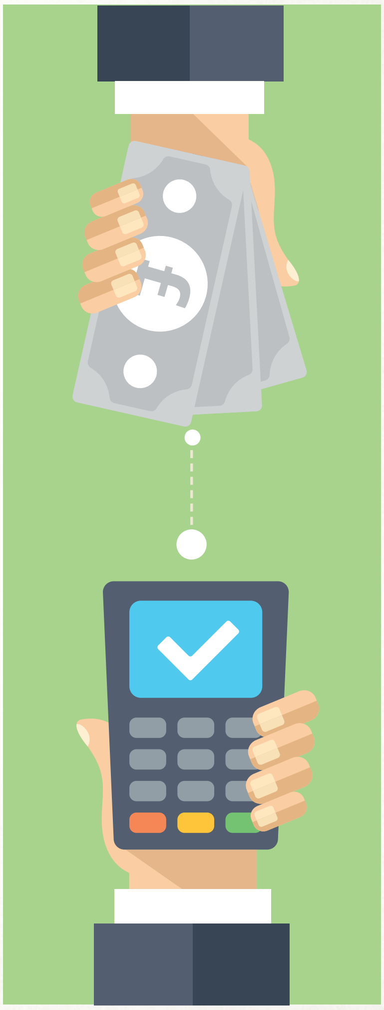
THIS NEWSLETTER IS A SUMMARY OF THE TRUSTEE, COMPANY, AND OTHER ELEMENTS...THAT YOU NEED TO BE AWARE OF TO HELP YOU WITH RUNNING YOUR DEFINED CONTRIBUTION (DC) SCHEME OR ARRANGEMENT.

Whether you are a trustee running an occupational scheme or a company offering a master trust scheme or a contract-based scheme (such as a Group Personal Pension), it is important to keep up to date.



* TRUSTEE ELEMENTS

PENSIONS ADVICE ALLOWANCE

The Pensions Advice Allowance, available from April 2017, will enable people to withdraw money from their pension pots tax-free to put towards the cost of pensions and retirement advice.

The Pension Advice Allowance:

- will be limited to up to £500 per use
- can be used a total of three times, but only once in a tax year
- will be available at any age, allowing people of all ages to engage with retirement saving/planning
- can be redeemed against the cost of regulated financial advice, including 'robo advice'
- can be withdrawn from DC pension pots and hybrid benefits with a DC or cash balance element
- must be paid directly from the pension scheme to the adviser

On 8 February 2017, the Government published a response to the consultation on introducing the Pensions Advice Allowance and HMRC will now conduct a short technical consultation on the draft regulations.

EQUITABLE LIFE WITH-PROFITS FUND

In September last year, Equitable Life announced that there was a very real possibility that its 35% capital distribution may have to be suspended. Due to low interest rates and new solvency regulations, it faced the challenge of earning the 3.5% minimum return built into many of its with-profits policies.

Equitable Life gave a more upbeat message in January this year, reporting that it had agreed with its regulators a more gradual transition to the new solvency regulations. The next annual review of the capital distribution took place at the end of March and, extraordinary events apart, Equitable Life does not expect any reduction in the 35% level.

NEW CHARGE ON OVERSEAS TRANSFERS

In a move to combat tax avoidance, the Chancellor announced in the March Budget a new charge on transfers to qualifying recognised overseas pension schemes (QROPS). Transfers to QROPS requested by members on or after 9 March 2017 will be taxed at a rate of 25%, unless certain exemptions apply. The tax charge can also apply where funds are transferred from a QROPS, where funds originated in a UK scheme.

The exemptions from the new tax charge cover a range of scenarios in which overseas transfers could reasonably be requested, e.g. where the member is resident in the same country as the receiving QROPS and where the QROPS is an occupational pension scheme sponsored by the member's employer.

> HMRC HAS PUBLISHED DRAFT GUIDANCE SETTING OUT HOW THE TAX CHARGE WILL WORK.

* COMPANY ELEMENTS

IN FEBRUARY, THE GOVERNMENT PUBLISHED DETAILS OF THE TERMS OF REFERENCE FOR ITS POLICY REVIEW OF AUTO-ENROLMENT IN 2017.

2017 AUTO-ENROLMENT REVIEW

In February, the Government published details of the terms of reference for its policy review of auto-enrolment (AE) in 2017. The review will consider the success of AE to date, and explore ways that the policy can be further developed.

Three themes will be considered as part of this:

- Strengthening the **engagement** of individuals with workplace pension.
- The **coverage** of AE and the balance between enabling as many people as possible to save in a workplace pension whilst ensuring that it should make economic sense for them to be included.
- Strengthening the evidence base around **appropriate contributions** into workplace pensions.

AUTO-ENROLMENT THRESHOLDS FOR 2017/18

The AE thresholds for the tax year 2017/18 are:

- The earnings trigger maintained at £833 per month - employees aged between 22 and State Pension Age with earnings above this trigger are eligible for AE.
- Lower limit qualifying earnings band increased to £490 per month – relevant for schemes using the qualifying earnings band option for pensionable earnings. Also relevant to the earnings level above which employees have the right to for employer-sponsored pension provision.
- Upper limit qualifying earnings band increased per month - relevant for schemes using the band option for pensionable earnings.

✱ OTHER ELEMENTS

PENSIONS DASHBOARD

Due for delivery by 2019, the Pensions Dashboard will aim to let people see all their pension savings in one place and help them to plan for their retirement more effectively.

A prototype was due for launch in March 2017, following collaboration between 11 pension providers - Aviva, Aon, HSBC, LV=, NEST, Now: Pensions, People's Pension, Royal London, Standard Life, Zurich and Willis Towers Watson. There have been some doubts expressed about what the prototype will look like which may not be a fully functioning version of the final system.

MUCH OF THE INITIAL WORK HAS CENTERED ON TECHNOLOGY, I.E. THE MOVING OF DATA. THE BIG CHALLENGE AHEAD LIES IN SECURING THE CO-OPERATION OF PENSION COMPANIES, THE PUBLIC SECTOR, AND OCCUPATIONAL DEFINED BENEFIT AND DC SCHEMES IN CLEANSING THEIR DATA AND HAVING THE ABILITY TO FEED THIS INTO THE DASHBOARD BY 2019.

OTHER REVIEWS TAKING PLACE IN 2017

- **DC charge cap -** The 2017 review of the cap, expected towards the end of the year, will assess whether the level of the cap should be changed and whether some or all transactions costs should be covered.
- **State Pension Age -** Recent legislation introduced a process of reviewing the State Pension Age approximately every five years. The first review submitted its recommendations to Government in March 2017 and Government will respond to this by May 2017. The review's headline recommendation was that the planned increase, from age 67 to 68, accelerates by seven years to take place between 2037 and 2039. If accepted, this will bring into sharper focus the need for employees to take personal responsibility for additional retirement provision. Employers are likely to have some concerns from a succession-planning viewpoint, as employees continue working to later ages.

THIS MEANS SCOTTISH TAXPAYERS WITH INCOME

above **£43,000** will now pay a higher amount of overall income tax than equivalent counterparts in the rest of the UK (on income above £43,000 and up to £45,000). It also means that Scottish taxpayers will have the opportunity for higher rate tax relief on any pension contributions made in respect of income that falls in this band.

REDUCTION TO THE MONEY PURCHASE ANNUAL ALLOWANCE

In his March Budget speech, the Chancellor confirmed that the proposed reduction in the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 would go ahead from 6 April 2017. The reduced MPAA will apply universally, i.e. to anyone who has already triggered the MPAA and anyone who triggers the MPAA on or after 6 April 2017. This will severely restrict the ability of anyone accessing benefits 'flexibly' to continue building up DC pension savings.

There is a communication gap for individuals who have already triggered the MPAA, with regards to finding out about this reduction. Neither trustees nor scheme providers are under any obligation to communicate this reduction to those members who have triggered the MPAA through flexibly accessing benefits. In addition, individuals may not have any remaining benefits in those schemes, e.g. if taking a taxable cash sum (UFPLS), so contact details may not have been maintained.

SCOTTISH TAXPAYERS

In February, the Scottish Government exercised its new powers in setting income tax rates and thresholds for Scottish taxpayers by announcing in its Budget that it would not follow the UK Government's position in raising the higher rate income tax threshold from 6 April 2017.

Based on a standard personal tax allowance (£11,500 for tax year 2017/18), the higher rate threshold for Scottish taxpayers will remain at £43,000, whilst it will increase to £45,000 for taxpayers in the rest of the UK.

BREXIT

Theresa May triggered Article 50 on 29 March 2017, beginning a two-year process for the UK's exit from the European Union. In the short-term at least, the Government is likely to maintain en bloc the pension legal framework, as there is unlikely to be capacity to consider this area in detail.

From an investment market viewpoint, we may see some additional volatility over the next couple of years as the terms of exit are speculated on and become known. In view of this, trustees and employers should ensure that appropriate investment monitoring is in place.

EMPLOYEE ENGAGEMENT

Our **'Generation why?' survey,** now in its third year, examines how engaged everyday people are with their long-term savings. We believe that using the word 'pension' discourages people as it has often been associated with being a 'dull' and 'difficult' subject to understand.

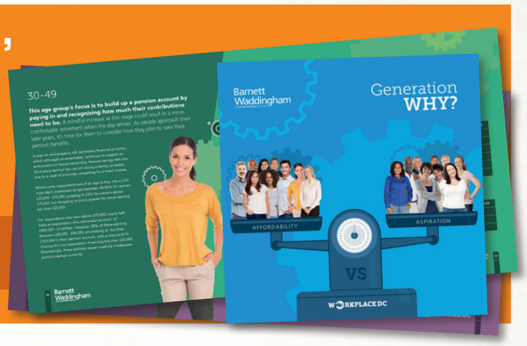
So far, we have learnt that individuals are very much driven depending on their age and affluence. Financial priorities also differ between age groups, with concerns around debt a priority for those aged between 18 - 29, in contrast to saving for a house in the 30-49 age band and unsurprisingly, the over 50s highlighting that their main priority is retirement.

The 2017 survey found that 79% of respondents believe financial education should be included in the workplace, which illustrates that people do want to learn about their overall finances and not just pensions. In addition, a tailored and personal approach to educating and engaging employees is key to communicating effectively with different age and affluence cohorts.

For many individuals, retirement may seem like a long way off but with more flexibility than ever, members need be educated about what effective saving for retirement really means. The desire to make the right choices is there, but it doesn't start with the long-term, it starts with the here and now.

OUR 'GENERATION WHY?' SURVEY, NOW IN ITS THIRD YEAR.

WWW.BARNETT-WADDINGHAM.CO.UK/GENERATION-WHY-2017/



PROVIDER NEWS

From 1 April 2017, the restrictions on transfers into and out of **NEST** and the limit on contributions into NEST will be removed. The current annual charge of 0.3% will apply to funds transferred into NEST (the contribution charge will not apply).

On 5 March, the boards of **Standard Life** and **Aberdeen Asset Management** agreed to a merger. The combined group would make it the UK's largest asset manager, with a market value of £11 billion.

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