MORE THAN A DECADE OF AUTO-ENROLMENT

ince the government introduced pension auto-enrolment in 2012, millions more workers have started saving for their retirement. Now, the government has confirmed plans to extend auto-enrolment to encourage a savings boost. The changes could have implications for both employees and business owners.

Following a review of auto-enrolment the government has revealed key reforms forecast to increase pension contributions by £2 billion a year.

Key auto-enrolment changes to be aware of

The minimum age of auto-enrolment will fall from 22 to 18

Young workers could start saving into a pension much sooner. The government intends to lower the minimum auto-enrolment age from 22 to 18.

For employees, this could be a positive step. Saving for retirement from the outset of their careers could help establish positive money habits among workers. In addition, compound growth means early contributions have the potential to grow significantly.

For business owners, it could mean their outgoings will increase as they'll also need to make pension contributions on behalf of eligible workers.

The lower earnings limit will be removed

Currently workers must earn at least £6,240 to be eligible for auto-enrolment.

The government plans to remove this lower earnings limit, so workers will receive contributions from the first pound they earn.

This will boost pension contributions among those that are already paying into a pension. It will also mean low-income workers that haven't previously benefited from a pension, such as those who work part-time while caring for children or older relatives, will automatically start paying into a pension and receive employer contributions too.

From an employer's perspective, this change could, increase the amount they are contributing to employees' pensions.

There could be a maximum limit on pension pots

As most employees are entitled to a pension through their employer, frequent job hopping could lead to individuals holding numerous small pensions. This may make it difficult to manage pensions effectively and understand if you're on track to reach your retirement goals.

The government has set out initial plans to help savers manage multiple pots. Among the proposals is a maximum limit on the number of pensions a person can have. The report also suggests a 'central clearing house' to make it simpler to consolidate pensions.

There is no timescale for the proposed changes

The official document does not set out a timescale to implement any of the changes. So, while young and low-income workers are set to benefit from auto-enrolment, it could be several years before they start contributing to pensions.

The minimum pension contribution will not be increased

The government has not made plans to change the current rules for contributions. Currently, the minimum contribution is 8% of qualifying earnings, made up of 5% from employees and 3% from employers.

Research suggests that minimum contribution levels are not enough to afford a comfortable lifestyle in retirement. There have been calls for the government to increase the minimum pension contribution level to help close the gap.

Auto-enrolment won't be extended to cover self-employed workers

Some organisations have called on the government to extend auto-enrolment to encourage self-employed workers to save for their retirement. However, support for the self-employed has been overlooked in the latest report.

Research from the Institute for Fiscal Studies suggests the number of self-employed workers paying into a pension has fallen over the last decade.

It also found self-employed workers that pay into a pension rarely change the amount they contribute. The analysis suggested a form of auto-escalation, such as a direct debit that increases in line with inflation, could help self-employed workers save more for their retirement.

Take control of your pension and retirement

While the change to auto-enrolment could mean more people are on track for a financially secure retirement, there are still challenges. If you want to reach your retirement goals, engaging with your pension sooner, rather than later, could allow you to identify the steps you need to take.

Please contact us to discuss your retirement aspirations and how we could help you create a tailored financial plan.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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