CARTWRIGHT

Industry Update

The Budget 2016 – "Putting the Next Generation First"

It was widely trailed that George Osborne would not introduce the "Pension ISA" in this year's Budget. In fact he has, but only for the under 40's and on a voluntary basis. The Budget also makes changes to the network of advice available for savers and seeks to provide assistance to those wishing to keep track of their pensions, along with some minor technical changes.

Lifetime ISA

The new ISA savings account, which the Chancellor has called a "Lifetime ISA", will be launched in April 2017 and can be used for retirement provision or for a deposit to buy a first home.

Savers who are under age 40 at commencement of savings can invest up to £4,000 per annum until they reach age 50 and the Government will add a 25% bonus to each contribution.

Under the Lifetime ISA, money is paid in tax-paid, but with a bonus added as above. The proceeds can be used for retirement purposes from age 60, or earlier for purchase of a first home.

Savers can make withdrawals at any time for other purposes, but with the bonus element of the fund, plus any interest or growth on it, returned to the Government and a small 5% tax charge applied.

Anyone under 40 wishing to make pension savings will need to consider in the future which method is best for them; a traditional pension arrangement or a Lifetime ISA. Traditional pension contributions are tax-free, but pensioners whose income is sufficiently high in retirement pay income tax on their pension instalments. Retirement benefits from traditional schemes currently may be drawn from age 55, subject to the governing conditions, which may include a penalty for early payment.

Providing Advice for Savers

The financial advice network is to be restructured. The Money Advice Service (MAS), which has provided financial and debt advice to consumers since 2010, is to be abolished. It will be replaced by a smaller advice body.

The Pensions Advisory Service (TPAS) and Pension Wise, the recently created Government backed information service, will also be restructured to ensure consumers get the financial advice they need.

Financial Advice

The Government has committed to implement all of the recommendations of the Financial Advice Market Review (carried out between the FCA and the Treasury) for which it is responsible and will:

- consult on introducing a single clear definition of financial advice, to remove regulatory uncertainty and ensure that firms can offer consumers the help they need;
- increase the existing £150 limit on Income Tax and National Insurance relief for employer-arranged pension advice to £500;
- consult on introducing a Pensions Advice Allowance. This will allow people before the age of 55 to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice. The exact age at which people can do this will be determined through consultation. This means that a basic rate taxpayer could save £100 on the cost of financial advice.

Keeping Track of Pension Savings

As people work longer and change jobs more often, pension savings can become confusing. The average person will move employers 11 times over their working life, meaning they could end up with 11 or more private pensions by the time they retire. According to the Treasury, research shows that over a third of people approaching retirement find it difficult to keep track of their pension pots. To help the next generation to clearly view their pension savings, the Government says it will ensure the industry designs, funds and launches a pensions dashboard by 2019. This is intended to be an online platform to enable an individual to view all their retirement savings in one place.

Minor Technical Changes

The Government will consolidate pension flexibilities from previous Budgets by:

- allowing serious ill-health lump sums to be paid tax-free (if the provider or trustees agree) when someone aged under 75 has less than a year to live but has already accessed their pension;
- making serious ill-health lump sums taxable at an individual's marginal rate when paid in respect of individuals aged 75 and over; and
- allowing defined contribution pensions already in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000.

No doubt we will learn more regarding these topics in the coming days.

If you would like to discuss this further, please get in touch with your usual contact at Cartwright Group:

Mill Pool House
Mill Lane
Godalming
Surrey GU7 1EY

T: 01483 860201

E: enquiries@cartwright.co.uk

250 Fowler Avenue
Farnborough Business Park
Farnborough
Hampshire GU14 7JP

T: 01252 894883

E: enquiries@cartwright.co.uk

Marlborough House
Victoria Road South
Chelmsford
Essex CM1 1LN

T: 01245 293300

E: enquiries@cartwright.co.uk

The Mansley Business Centre
Timothys Bridge Road
Stratford Enterprise Park
Stratford-upon-Avon
CV37 9NQ

T: 01245 293300

E: enquiries@cartwright.co.uk