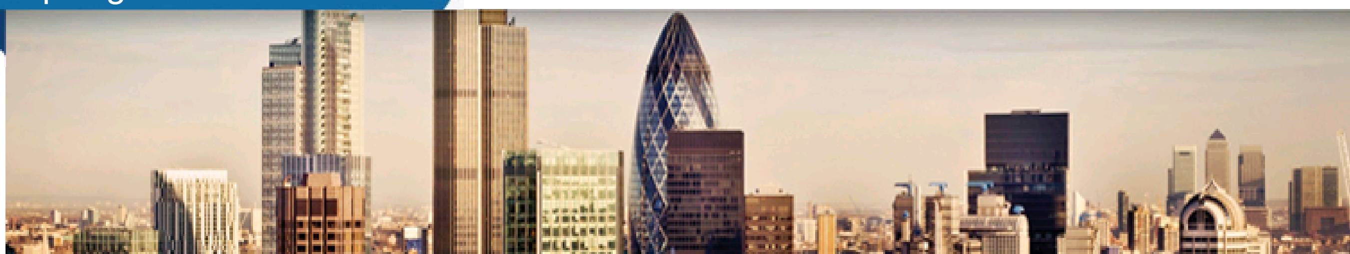
NEWS & VIEWS

Spring 2014



FOOD FOR THOUGHT

Ahead of next year's General Election, Chancellor of the Exchequer George Osborne delivered a Budget that provided considerable food for thought. The UK economy is now predicted to grow more strongly than previously forecast and to expand this year to a level greater than its pre-crisis peak. The UK's budget deficit during 2014 is likely to be lower than envisaged at 6.6% and is now expected to achieve a surplus by 2018/19.

Business rate discounts and enhanced capital allowances in enterprise zones were extended for another three years. The Annual Investment Allowance was extended to the end of 2015 and doubled to £500,000. Export finance was doubled to £3bn and interest rates on this lending were slashed by one-third.

From 1 July, cash ISAs and stocks & shares ISAs will be merged into a single ISA with an annual tax-free allowance of £15,000. The Chancellor also announced a new Pensioner Bond that will be available to everyone aged over 65 from January 2015.

Meanwhile, in what was probably the most controversial measure within the Budget, the Chancellor announced plans aimed at removing all tax restrictions on pensioners' access to their pension pots. In particular, pensioners will no longer be obliged to purchase an annuity to fund their retirement.

THE BENEFITS OF REGULAR SAVINGS

In the complex world of investment, timing appears to be crucial. However, without the benefit of hindsight, it is impossible to second-guess the market. However, there is a way around this. By saving regularly, investors can benefit from what is known as 'pound cost averaging'. This mitigates the risk of buying your entire investment at a single price – instead, smaller sums are regularly invested at a variety of different prices, reducing the risk of investing at the wrong time. Most investment products offer regular savings as an option, including investment funds, Individual Savings Accounts (ISAs), life assurance and pension plans.

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WHAT IS AUTO-ENROLMENT?

One of the largest-ever shake-ups in the history of UK pensions, automatic enrolment (auto-enrolment) was introduced in 2012 to provide wider access to pension savings. A changing demographic backdrop means that, while people in the UK are living longer, they are not saving enough to finance their increasingly long retirements. Before the advent of auto-enrolment, only 46% of UK employees were enrolled in a qualifying workplace pension scheme.

According to the Department of Work & Pensions , individuals working in sectors such as hotels, construction, and agriculture were the least likely to save into a workplace pension. However, since auto-enrolment was introduced in October 2012 , two million people have started saving into workplace pension schemes. It is estimated that, by 2018, between six and nine million people will have increased the amount they are saving into a pension scheme, or will have joined a scheme for the first time. Auto-enrolment is designed to provide every worker with the opportunity to amass some savings for their old age, while helping to shift the onus away from the state and on to the individual. Employers are now obliged to enrol all their employees in a qualifying workplace pension scheme, unless the individual makes an active decision to opt out.

In order to be eligible for auto-enrolment, an individual must live in the UK, must be aged between 22 and state pensionable age, must earn over £9,440 a year and should not already be signed up to a workplace pension scheme. The employee will be able to decide the level of investment risk they are willing to take with their pension savings although, in the absence of an active decision from the individual, the default option will be relatively conservative. The pension provider will impose an annual management charge, to be deducted from the pension pot.

A minimum percentage of each worker's "qualifying earnings" have to be paid into their pension pot. Employers have to make contributions, and the government also makes a contribution through tax relief. Each individual will pay in a minimum of 0.8% of their qualifying earnings, rising to 4% by 2018. Their employer will contribute a minimum of 1% of the employee's qualifying earnings, rising to 3% by 2018. Finally, the UK government will pay 0.2% of the employee's qualifying earnings, rising to 1% by 2018.

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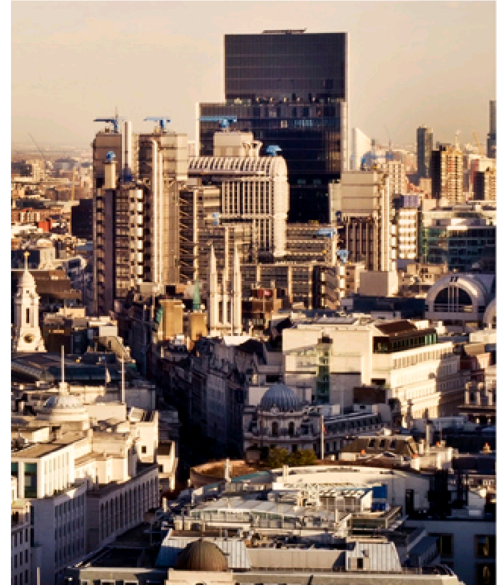

Q: WHAT IF I OPEN TWO ISAS IN THE SAME TAX YEAR?

A: Unfortunately HM Revenue & Customs makes no allowance for human error – a second ISA opened during the same tax year as an earlier application will become fully taxable. You cannot nominate the second ISA as your preferred account for the year under any circumstances. This is particularly relevant for regular savers as the first payment after 6 April automatically opens a new ISA for the new tax year. If you wish to stop and/or move your investment before the new tax year starts, ensure you provide instructions well in advance or you might find yourself stuck for another year.